

**Developing Management of Privatisation:  
An Empirical Study on the Barriers Hindering  
Implementation of the Programme in Saudi Arabia  
and a Proposed Efficient Model**

By

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## **Abstract**

In 1997 the Saudi Government took a forward step to implement privatisation and to promote the process and its implementation in different public enterprises. They issued various resolutions and decisions for implementing and managing the programme but the process is moving slowly and rate of the implementation is limited. Implementation of privatisation is related to several matters, such as condition of the enterprise, content of the privatisation strategy, etc.

This research concentrates on investigation and analysis of the privatisation programme in Saudi Arabia, with particular reference to the process of managing and implementing the programme. The main objectives of the study are: (1) to establish the reasons for the delay in implementing; (2) to investigate the barriers hindering the process in several enterprises and the level at which these barriers are hindering the programme; (3) to develop an "Efficient Models" to help the Government in smooth implementation of the programme.

The research uses the literature review, survey opinions of a group of the public and private sector managers and various case studies as sources of data for the research. The methodology of the study evaluates whether the barriers to implement the programme in the country lie at the privatisation strategy level or at the enterprise level. It includes investigation of the barriers hindering of the programme, development of a main model and the other models based on analysis of the international experiences and their comparison with the actual implementation of the programme at Saudi Arabia.

This study is designed to fill the gap in knowledge about planning and managing privatisation and monitoring the process of implementation. The study develops an "Efficient Models" which makes managing the process clear for all the organizations involved in the process. These models are allowing the Saudi government to implement, manage and monitor the privatisation strategy, employees' matters, restructuring and regulation policy.



## **Dedication**

This research is dedicated to:

- 1) My father and my mother for their encouragement, support, sacrifices and prayers throughout.
- 2) My wife and my sons and daughters for their love, encouragement support, and sacrifices.

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## **List of Abbreviations**

CITC = Communication & Information Technology Commission

CM = Council of Ministers

ECRA = Electricity and Cogeneration Regulatory Authority

GEC = General Electricity Corporation

HRDF = Human Resource Development Fund

IPO = Initial Public Offering

MENA = Middle East and North Africa

PC = Privatisation Committee

PEs = Public Enterprises

PSEs = Public Sector Enterprises

PMC = Privatisation Ministerial Committee

PPI = Public Private Infrastructure

PPP = Public Private Participation

PTT = Ministry of Post Telephone and Telegraph

RC = Royal Court

SABIC = Saudi Arabian Basic Industry Company.

SEC = Supreme Economic Council

SEC1 = Saudi Electricity Company

SOEs = State Owned Enterprises

STC = Saudi Telecommunication Company

STIC = Saudi Telecommunication and Information Committee



# **1 Introduction**

## **1.1 Introduction**

Saudi Arabia is one of the countries which were slow to adopt the trend towards privatisation in the Middle East towards the end of the twentieth century. This fact may have advantages and disadvantages; among the advantages, it may be possible to learn from the experience of other countries, avoiding many of their mistakes and benefiting from their achievements. On other hand, the disadvantages are that, as competition in foreign markets is greater, without modernization of the economies the probability of success in international markets will be smaller and more difficult. Bangura (2000) mentions several items about the history, objectives, etc. of privatisation:

The privatisation trend stretches back over the last two decades, in which there has been a strong movement worldwide towards involvement of the private sector in different sectors, such as providing utilities, financing projects, etc. Most of the forces driving this movement are a result of the world's economies undergoing major changes.

Many authors mention privatisation as a solution to different problems:

Privatisation has become a well-prescribed solution to overcome these financial and economic problems in several public sector enterprises in different countries in the late 1970s and early 1980s. Developed countries (e.g. the UK, USA and Germany), as well as developing countries (e.g. Argentina, Chile and Malaysia) have applied privatisation to different degrees as a reform policy to promote national development, boost local economies, increase levels of efficiency and raise revenues [1],[2].

Shehadi (2004) mentions the experience of some countries in the MENA that have begun to implement privatisation belatedly and, at first, reluctantly. However, until recently, privatisation progress in the Arab states has been very modest: the MENA region's share of the total investments in PPI in developing countries averaged 3.4% in 1998 and 1999.

Fluctuating in the oil prices and growth of the population increased (up 3.9%) and a competitive global market has all increased the problems of the government. Furthermore, increasing debt, financial deficits and mismanagement in different public sectors have increased the difficulties in financing various enterprises. The Saudi government needs to reform and diversify the economy, and are searching for different ways to develop and improve the investment environment, increasing

the income and diversity from the oil sectors. The SEC in Saudi Arabia has recommended privatisation as a reform policy to liberalize and improve the economy.

This research will concentrate on an analysis of the privatisation programme in Saudi Arabia, with particular reference to the process of managing and implementing the programme, and the barriers hindering the programme. The research will develop an "Efficient Model", which would allow the government to identify these barriers and help them in the implementation.

## **1.2 Statement of the problem**

In August 1997, according to Decision No. 60, the CM in the Saudi Government specified eight objectives for implementation of privatisation for selected PSEs in order to generate direct and indirect revenues through liberalizing, selling and taxation and to improve competition in the local economy. In addition the Decision No. 257 dated 2001 stipulated that the SEC will take the responsibility of supervising and following up the programme. In 2001 the SEC issued Resolution No 6/22 which reorganized the PC within the SEC, under the chairmanship of the Council's secretary-general, with members representing the Ministry of Finance, Economy and Planning, Industry and Electricity and Commerce, in addition to two members from the Advisory Board for Economic Affairs.

Accordingly, some of the PSEs that are facing structural problems and large financial deficits, but could be potentially profitable for private owners, are the STC, SEC1, Saudi Airlines (SAUDIA), Saudi Ports, Saudi Post, etc. These enterprises were to be sold, leased, managed by or transferred to the investors. Some of the services provided by these enterprises will be contracted out to the private sector.

Since the Government initiated the programme to transfer the PSEs to the investors; the rate of the implementation has been slow and there has been some partial privatisation in the telecommunication. The Government sold 20% of their shares in STC to the citizens and 10% to government funds. For the other targeted PSEs, the rate of the implementation has varied from one year to the next, but on the whole the process has been progressing very slowly.



This research aims to evaluate process of implementation of the programmes in Saudi Arabia by investigating the process and all the organizations involved, e.g. the policy, the public sector and the enterprises, etc. The purpose is to provide an analysis of the privatisation programme in Saudi Arabia. It will investigate some of the barriers hindering and slowing of the process. It will consider the opinions and attitudes of public and private sector managers on privatisation with respect to different issues and barriers related to implementation.

### **1.3 Significance of the study**

Articles about privatisation have appeared extensively in different fields. At present, the literature lacks a comprehensive, detailed study focused on managing privatisation and the barriers hindering implementation of the process in Saudi Arabia, the Gulf Countries (Bahrain, Oman, etc) and the Middle East area and in some of developing countries. No previous study has focused on management of privatisation while considering the barriers associated with the process in this region. The challenges in managing privatisation are mentioned by Iacono (1995):

There is no viable strategic model that would guide these countries and their advisors in transforming public sector enterprises into privately owned enterprises. In addition, most of the countries have faced challenges in managing the implementation of privatisation. Where conditions for privatisation are favourable, governments and the private sector face serious management challenges in implementing privatisation policies.

Prokopenko (1991) emphasised some methods for managing the process: “Once governments have established a policy environment that is conducive to privatisation, they must create new institutions, effective privatisation procedures and the appropriate organizational structures and management mechanisms,”. Some of them took correct action in their programmes after they impacted on citizens, services, employees, the economy, etc. One of the major problems which can be created by privatisation is its effect on the social and economic life of employees. Studying and analyzing the programme before implementation could minimize or reduce the problems associated with the process. The complexity of privatisation is stated in various writings on the subject:

A critical challenge facing countries pursuing privatisation and market development is efficiently managing the procedures for transferring SOEs to private ownership, and also to elicit the participation of the private sector in providing public services and infrastructure. Managing the privatisation



process is complex, but experience is now yielding a set of important management principles by which governments can improve the implementation of privatisation programmes [6],[7].

In addition, to date privatisation efforts in Saudi Arabia have not been fully studied. This study would consider and investigate the privatisation since they implemented the programme. It investigates the strategy and the barriers hindering of the process, in an attempt to fill the knowledge gap on these issues. Therefore, there is a considerable need for theoretical and empirical studies of privatisation in Saudi Arabia.

It examines the opinions of the public and private sector managers and considers to what extent their knowledge and participation would be helpful to the success the programme. It is expected to provide a detailed account of privatisation, including an assessment of the strengths, weaknesses, opportunities, barriers, aims and practices.

The thesis presents useful information for the decision makers, managers, administrators in public and private sectors, local and foreign investors, authorities, etc. The Saudi market is now more open to local and international private sectors than ever before. Consequently, this study provides information to investors about the Saudi government's commitment to the programme; furthermore, it gives them general information about the Saudi economy, employees and legislation. Moreover, in view of the shortage of previous empirical research evaluating the process after implementation, this study is expected to reveal essential information which helps in making accurate plans for transaction of some of the enterprises.

This may not change the general outlines of privatisation in these countries, but it may bring to their attention some hidden aspects about implementation of the process. Furthermore, this study answers most of the questions about the attitudes of the public and private managers towards privatisation, as other countries in the MENA may face the same problems. MENA countries share very similar cultural, social and economic aspects, and they have put privatisation at the top of the political and economical agenda; most of them have suffered from slow implementation of the programme.

In addition, this study responds to most of the questions from citizens, employees and businessmen about problems created by slowing down the process. Finally, it contributes to the existing body of the literature regarding privatisation implementation and the problems that hinder it.

## **1.4 Research objectives and motivation**

### ***1.4.1 Objectives***

The main objective of this research is to implement the privatisation in Saudi Arabia and eliminate the barriers. This study investigates the barriers that are possibly hindering the programme. It includes the following specific objectives: evaluating the performance and productivity of the public sector and the PSEs; analysis of the privatisation strategy, the problems hindering the process and investigation of whether the government has been successful in the process; assessing the Government's commitment to implementing the privatisation strategy; investigating resistance and opposition from employees; discussing one of the major problems associated with restructuring the enterprise and which could hinder of privatisation and; investigating the problems in policies related to the legal framework in legislation matters, and establishing the regulator.

Based on the research problems the study had the following objectives:

- Provide an overview about the privatisation programme in Saudi Arabia.
- Identify the understanding and attitudes of public and private managers to the programme and the implications of these attitudes.
- Develop an "Efficient Model" which could help in smoothing of the process.

There were reasons for studying the opinions of both private and public sector managers in the research such as:

- Most previous studies concentrated on the attitudes of public or private sector employees; this means they examined one aspect of the programme, but did not cover the other partner.
- Some governments are against giving the private sector a chance to handle the economy. Among these are the Asian governments, which do not seem willing to forego control and hence leave no room for private ownership to grow quickly [8]. Therefore, through investigation of the investors' opinions, this could give us



an idea of whether there is a commitment by the Government to give them the chance to handle these entities.

- Success of the programme depends on co-operation and participation of both sectors in the process.
- Most of the developing countries are now more open to attract investors to different investments in the country. At the same time, the private sector has become a pillar of the economy in different countries.
- Private sector managers are more open compared with those in the public, and they have more knowledge about the implementation of privatisation in different parts of the world and the factors which hinder or influence success of the programme. All these factors helped the researcher to take two different opinions about the programme and the problems in a more open way without hesitation. The public managers have more knowledge about the PEs and could, as implementers, provide some new information about them.
- Investors' have knowledge of the public sector through their role as businessmen who deal with the government in different projects and also as citizens. At the same time the public managers have some idea about the performance of the local private sector.
- Managers are the masters of change in any organization or structure or in any business, so their opinions and views could have an effect on the programme. In different programmes, managers generally create opposition to the process, and that could hinder or delay the process.

All these factors emphasise the role of the managers in private and public, and their participation in this research is very important. For all the above reasons the researcher wanted to present both public and private managers as partners in the privatisation, as lacking this factor could impact negatively on the whole process.

#### ***1.4.2 Motivation***

Facing budgetary constraints and recognizing their inability to provide services (water, telecommunication, transportation, etc.) effectively, many countries, especially developing countries, have opened their PSEs to private investment in different sectors. Most of these countries have found that it is necessary to go through PPP. The investors could participate with the government in different ways, such as managing, operating, financing and providing services, etc.



Privatisation is one way that could be used to encourage the private sector to participate in a variety of services and sectors. It could cover most of the economic activities in services, industries, finance, infrastructure, etc. Most of the developed and developing countries have used privatisation techniques in infrastructure projects such as telecommunication, water, transportation, and some of them have used it in financing projects. This strong movement towards the expansion and use of privatisation requires governments to implement a rational and comprehensive programme which addresses all aspects of the barriers or problems affecting its implementation.

To date, most decision makers in the public sector, especially in developing countries, have lacked a systematic process or clear procedures in implementing privatisation techniques. It should be noted that some countries implemented privatisation and then, after some time, the pace slowed down; some of them had problems with the process because it had not been studied properly, and there was resistance from different parties within the country.

One common problem was that they did not give enough thought to all the relevant issues that would affect the programme, such as opposition from the employees. Implementation of privatisation requires a great deal of effort from the decision-makers in the public sector in studying all the relevant aspects of the programme. In most countries, privatisation presents new and excellent ideas for the public sector.

One of the major factors motivating the thesis was very limited privatization works has happened since 1984. The first step of liberalization and diversification of the economy occurred in 1985 when the Saudi Government released 30% of their shares in Saudi Arabian Basic Industrial Company to public and they released 30% of the Saudi Telecommunication Company in 2003.

This study could help in developing models that will enable the public sector to make better decisions when proceeding with privatisation. In particular, this study will consider the attitudes and opinions of both public and private sector managers with whom they will work as partners to handle the process. This research will present and investigate the opinions and attitudes of the managers. Most of the

developing countries implemented their programmes without considering the opinions of the investors or the private sector.

### **1.5 Research hypothesis**

Answering the above questions requires the preparation of a multitude of hypotheses. The researcher used them as guidelines to construct the research. The following hypotheses were prepared: The programme lacks commitment from the Government, which decreases the speed of the process; the management structure of the programme created obstacles to implementation of the process; there were other problems which affected implementation of the process, including attitudes of employees in public enterprises, restructuring of different enterprises and establishing and applying different legislation and regulations.

The study investigates these hypotheses using the following sources:

- Information from publications, journals, reports, conferences and books.
- Information related to implementation of the privatisation programme from previous studies in Saudi Arabia and other parts of the world.
- Collecting information from meetings and interviews with some of the decision makers on privatisation policies in the country, businessmen and Saudi government officials.
- Survey of public and private managers.

The questionnaire used in this survey gives these types of hypothesis. It deals with the distribution of responses for certain given variables. This type of hypothesis was tested by a Chi-square one sample test. This test is carried out to ensure that the survey result can be interpreted with some confidence as a significant finding based on considered responses. The research goal is to examine the issue of the management of the programme in Saudi Arabia, and to identify some of the public sector problems. Finding the barriers, problems and preparing evaluation for different alternatives are essential matters in examining the process.

The opinions and attitudes of the managers regarding the programme is a very important matter. Managers' opinions could give valuable results and insights into the policies, which could make or break the research in the initial stages. This indicated that the researcher needs to understand and investigate all these matters and the policies related to the privatisation strategy. Assigning the responsibilities



between different organizations is an important measure to evaluate management of the process, at the same time studying and understanding the respondents' opinions. The actual practice of privatisation has to be analyzed in depth to see whether policies and attitudes stand the test of successful practice.

The privatisation process in Saudi Arabia is interrelated between several levels and organizations, starting from the highest decision-making level (Royal Court, Council of Ministers), the highest economic decision-making level (Superior Economic Council, Privatisation Ministerial Council, Privatisation Committee, etc.) and the enterprise level. All these levels exist under the macro or micro level. This indicated that dealing with a single piece of the research cannot achieve the purpose of the research. This led the researcher to deal with all of these levels as a group.

#### **1.6 Selection of research methodology**

The first and most difficult task facing the research is choosing the optimum methodology. The research team considered the most appropriate method to assess the managers' opinions in the attitude survey. Based on this type of research, the one which was most feasible and suited the nature of the study is the stratified sample. Quantitative methodologies, such as surveys, have the advantage of enabling the researcher to generalize statements concerning the subjects of the study through a representative survey and later to validate the results by standard statistical techniques [9].

This type of survey is based on evidence from a relatively large number of the respondents who were chosen to represent the population in statistical methods, allowing the researcher to obtain more reliable responses. This methodology could be carried out by use of a questionnaire, which has its advantages and disadvantages. The major disadvantage is that in most cases it is not possible to get detailed results or answers: sometimes some responses are unspecific, and are not normally clarified by the respondent. The process could also be associated with bias. Such bias could be the result of the questionnaire design, leading respondents to answer in a certain way, or in the choice of respondents themselves, who could be more likely to respond in a certain way [9].



Minimizing the disadvantage requires the use of another method to support the research results, because there are some specific problems in the public enterprises, such as implementation restructuring, employee compensation, etc. Hence this study needs to look at these problems in more detail. This could be investigated through reading reports, papers, document, and case studies if they are available. This allows for the researcher to use qualitative methodology, such as case studies and interviews, which would allow for a more detailed understanding of processes, causes and effects. This would also help to examine what happens behind the scenes of different institutions, organizations and activities [10].

This method supports the researcher with more evidence, such as reports, records, etc., from different enterprises. The advantage of the case studies is that they can be adapted to each case or condition, and the information extracted can be very specific and cannot be generalized.

The researcher adopted different case studies for each problem to obtain more detailed examinations of each PSE. The first case studied the problem of employees and the types of compensation presented to them. The second case investigated the problem of restructuring of the enterprise and how they dealt with it. The third case dealt with procedures of implementation of the regulations and the legislative framework. The researcher investigated the documents and reports to find relevant data where appropriate and to relate them to each case study. Thus he depended on his judgement and discussion with his supervisors in arriving at a final idea and using both quantitative and qualitative methodologies in this research.

To investigate the privatisation programme and its implementation in Saudi Arabia, the researcher classified the research work on three levels, within the limited available resources and the time allowed. He studied each of the following levels:

- Policy level: reviewed the documents, reports and articles related to privatisation strategy in Saudi Arabia, including Decisions No. 60 and Decision No. 257. This lead to a clear understanding and analysis of the programme. Also, he carried out an attitudinal survey of the managers to investigate the privatisation

policies and clearance of the programme. This allows identification of the problems hindering privatisation implementation at the policy level.

- Public sector level: reviewed and surveyed the documents, reports and records that are related to their performance and productivity; this is parallel with an attitudinal survey of the managers. The aim was to assess managers' opinions on the failure of the public sector, reforms implemented by the Saudi Government, and the problems that are slowing down implementation of the process from their side, etc.
- The targeted sector or the public enterprises level: reviewed and surveyed the documents and reports that are related to them, and an attitudinal survey of the managers was carried out. The aim was to assess managers' opinions on the performance and the problems of the enterprise that are slowing down implementation of the privatisation. This allowed the researcher to identify some of the problems that are hindering implementation at this level.

Investigation on these three levels allowed the researcher to get a view of the whole process in the country in terms of the programme's strengths, weaknesses, problems, etc. Studying the public and public sector enterprise provided the researcher with information about their productivity and performance. This information presented their strength in utilization of the resources and their failure in managing different sectors and services.

Examination and assessment of different enterprises enabled the researcher to identify implementation problems. Studying and surveying the managers' opinions on the whole process allowed the researcher to identify and assess problems of implementation at all these levels and how their attitudes affected the process. With investigation of all these articles, documents, etc, surveys, the process takes some of the case studies in an attempt to realize the problems of the programme and the enterprises.

### **1.7 Research Methods**

The researcher adopted different methods for finding a variety of information resources, as explained below; all of these helped to realize and obtain a clear vision of the research problem. The researcher has adopted a triangulation method



with three main sources of information (literature review, surveys and case studies) as explained below in more detail.

### ***1.7.1 Literature Review***

The literature review is an essential part of the research process and it is integral to the success of the academic research [11]. The review includes the recent relevant journal articles, research papers and books. The literature review was very helpful for the researcher; it enabled him to understand various issues relating to privatisation and the barriers associated with the programme. This review allowed him to construct the research hypotheses and prepare and design the managers' survey.

The literature review was very important for the researcher in the setting out of an "Efficient Model" for privatisation practice, and the different components and steps in it. This allows the researcher to investigate and analyze the actual practice of implementation of privatisation in Saudi Arabia and make comparisons with the international practices in order to construct the model.

### ***1.7.2 Attitude Survey***

The main purpose of designing this attitude survey was to investigate, analyze and understand the attitudes of the managers through statistical identification. This is a formal method of providing feedback from the respondents. The benefits of this process would be the provision of much useful information related to the subject — an attitude survey would show to what limit the public and private sector managers could constitute barriers in implementation of the process. These attitudes will not be made clear unless such surveys are prepared and organised. These attitude survey items covered different facets related to the subject.

### ***1.7.3 Case Studies***

The literature is appropriate for this research, so that the lessons from the case study will be more likely to advance knowledge and understanding of the given topic [10]. Three case studies have been used in the research to help identify three major issues related to the implementation of privatisation in Saudi Arabia. The first case study was used to help in studying the problems associated with employees in the public enterprises, in this case the Saudi Arabian Airlines (Saudia). It is discussed in more detail in Appendix E.



The second case expressed the problems associated with implementation of restructuring on the SEC1 refer to Appendix H. The third case presented the problems related to preparing and establishing the regulation and the legalisation framework: for this the researcher investigated the Saudi Telecommunication and Information Committee (STIC) refer to Appendix J.

Each case has been selected for different reasons: the first case was selected because Saudia was the first enterprise the Government decided to implement privatisation on it. SEC was one of the first enterprises to have implemented the restructuring technique. STIC was one of the first regulators to have dealt with the regulation and legalisation problem in the country.

#### ***1.7.4 Managers' interviews***

In the literature review some of the information was not understandable and needed more detailed clarification. This information was listed, and during distribution of the questionnaires the researcher discussed it with the managers and recorded their opinions about this matter. A well-organized and planned interview process will be beneficial to the study, and this phase of the study was most beneficial in attaining a clear understanding of privatisation issues and processes.

When the interviewees are addressing and expressing their opinions, it is better for this to be done face-to-face to discuss all matters related to this subject. The disadvantage of this method was that they were reluctant to co-operate in the investigation of this subject; this was especially so among public sector managers, and sometimes some of them would not acknowledge the truth.

### **1.8 Methods of building and managing the research instrument**

#### ***1.8.1 The instrument***

This research is concerned with measurement and assessment and a large part of it depends on the public and private managers. Consequently, for research purposes, the researcher has to find a method to check and measure the attitudes of the managers. There are many ways to achieve this; it depends on the type of research and the researcher has to decide on a reliable method which is achievable with the available resources.

A method was chosen that gave the respondents a direct impression of the type and content of the study: first, adopting a brief about the purpose of the research and a brief for each section of the research; each questionnaire gave the respondent instructions about the method of answering the questions and the researcher attached in each copy a cover letter explaining the importance of the study and asking for their honest opinion in completing the questions to improve the chance of a successful study.

Second, one previously tested method was attitude-rating or scaling. The Lickert scale was used in this study for the following reasons: possession of several merits; ease of construction; the ability to secure more specific data or information about the managers' agreement and disagreement (especially as most of the study questions will follow this type); it has reliability, suitability and is easy for managing and administration. Using this scale allows the respondents to indicate their level of the agreement or disagreement with all the matters indicated.

Third, the researcher used the ranking method: this method asks the respondents to choose one or more items from the factors written in the table and then rank them. This method is very important for finding the importance of each factor in the table. Lastly, there are two types of questions, open or closed. The research used closed questions: using this type concentrates the research on the specific aim of the paper. The researcher chose this type of question because it is the most appropriate, as it makes responses easier and quicker; is easily quantified; provides alternatives to choose from and minimizes written responses.

Also, closed questions have a very important advantage: they present the answers to the respondents because some of them are not specialists in this field; this way allows them to choose one of the answers. Some of the information the managers may not know or may have forgotten, so the closed question presents them with a range of relevant answers.

Finally, all the data used in the closed questions were built on reviewing the literature, which presents the actual experiences and practice of some industrial countries (UK, USA) and developing countries (Malaysia, Chile) and some international organizations (e.g. World Bank) in this field. This ensures the



questions reflect the actual practice of implementation of privatisation in typical environments and the questions are also given various checks (e.g. validation, reliability, etc.).

### ***1.8.2 Building the research questions***

Based on the research motivation and objectives, this study identified and analyzed the major problems or barriers hindering implementation of the privatisation programme in Saudi Arabia. The research was constructed to present information about privatisation in the country. It investigated and analyzed the opinions and attitudes of managers on different privatisation issues. This allowed the researcher to evaluate the influence of the Government and managers on implementation of the programme. At the same time, the researcher investigated the Government's commitment to implementing the strategy.

The research looked for different problems related to implementation of the privatisation in the country. The questions of the research focused on the problems mentioned above, which were used as a basis or guideline to the research questions.

The study seeks to investigate and answer the following questions:

- What are the opinions of managers about different matters related to public sector productivity, performance and the types of reform implemented? Are public sector problems leading the government to liberalize and privatize different economic activities in the country?
- Managers understanding of the term privatisation — does the privatisation strategy create a problem during implementation? Are these problems creating barriers or delaying implementation of the programme? Methods of developing the strategy. Also this section covers management, clarity, responsibilities and coordination of the strategy between various authorities and organizations.
- What other types of problem could have an effect on the implementation of the programme? Are these problems hindering or delaying the programme? This includes the following matters:
  - Role of the employees in the PSEs in implementation of the process. Are they hindering the programme?
  - Effects of restructuring of the enterprise. Did that hinder success of the privatisation in Saudi Arabia?

- Role of the regulatory bodies in liberalizing and implementation of the process. Did the regulatory delay implementation of the programme?

The study deals with each matter independently, supported by case studies and concluding with recommendations to deal with each one.

These questions provide three major objectives, as follows: first, it gives the managers a summary about the process and its implementation; second, it presents the opinions and views of the managers about implementation of the programme; finally, taking the opinions of more knowledgeable people provides a better understanding and useful information for developing implementation of the programme. According to the study and the research requirements the researcher constructed the questionnaire with five parts. The research questions were arranged with the following sequences and subjects (see Appendix B).

### ***1.8.3 Structure of the questionnaire***

The research objective examines these hypotheses through a questionnaire survey distributed to the managers. The questionnaire consisted of five parts to measure the managers' attitudes and opinions towards the management's privatisation programme and the barriers that slow down its implementation in Saudi Arabia. Each part of the study instrument begins with a brief statement explaining its purpose and goals. In addition, the questionnaire includes instructions on how to answer these questions. Finally, there is a cover letter explaining to the respondents the purpose and importance of the study.

There are two types of the questions, as follows:

- Asking the respondents to indicate their level of agreement or disagreement from one (strongly agree) to five (strongly disagree), with various items used to measure each of the items of the privatisation programme, as listed below.
- Ranking questions that asked the respondents to indicate their level of the importance of the listed items. Ranking questions that showed the importance of the item, starting from very important (one) to not at all important (five).

This section gives a brief description of the questionnaire structure, as follows:

- The first part covered role, development, objectives, performance, types of reform implemented and failure of the public sector and the public enterprises.



- The second part investigated the views of managers about the privatisation programme in Saudi Arabia, and measured their attitudes about privatisation as an economic reform policy: the main purpose of this part is to find out the attitudes of the managers about Decisions No. 60 and No. 257 and Resolution 6/22 to implement and manage privatisation. These questions investigated the managers' understanding and knowledge of the privatisation issues, to what extent these decisions could succeed, and what is lacking in them?
- Third part covered employees' issues in the PSEs and the problems associated with implementation of the programme.
- Fourth part studied implementation of the restructuring on various enterprises.
- The fifth part investigated implementation of the regulation and regulatory framework in the privatisation policies.

#### ***1.8.4 Processing translation of the questions***

One of the major problems facing the researcher is translating the questions to the respondents' language; after preparing the questions in English a method was needed to translate them accurately into Arabic. After the questions were prepared and the validation finished, the researcher used the services of two highly-qualified translators; the first to translate the questions from the English to Arabic, the second to translate the English version to Arabic. This allowed to make a comparison between the original and the translation. This process helps in avoiding any differences in the two versions and producing a clear final version.

#### ***1.8.5 Validity of the research instrument***

The purpose of applying validation on the study is to obtain adequate criteria of what represents success in the study; designing a measure to check the validity content of the study and specifying which criteria will present the most problems in the process. It is not easy to obtain a measure of practical criteria of prediction for the validation of the study. To achieve this researcher took various measures as shown below to ensure the validity of the study.

Measurement of the constructed study needs evidence and could be applied by various methods, e.g. ratings, performance tests, and published test. The rating method could be applied two ways, by self-rating or rating by others; the first type or measure applied is checking the content of the study and verifying sources of

the data. As mentioned previously in the instrument the researcher investigated various countries' experiences in implementing privatisation and the barriers they faced: this is investigated and studied in more depth in chapters Two and Three.

The empirical method or approach has been applied in this research to make sure there is no bias regarding personal opinions involved in this research that could reflect on the total score and to validate the final version of the questionnaire. The researcher looked for volunteer managers with enough knowledge about privatisation. This jury group was picked after the aim of the questionnaire was explained to them and they accepted this task. They were asked to validate or judge the questionnaires, i.e. their ability to measure what they had been designed to measure (the managers opinions). The group came from three different types of work environment: four managers from public enterprises; four businessmen representing the private sector; and two people from an educational institution.

The jury members were given two weeks to study and validate the questionnaire; each member of the jury made his comments independently; finally all the comments were collected and the researcher prepared a table for comparison of the jury members' responses. Then the researcher produced the final version of the questionnaire with the managers' comments, and as a result some of the original questions were changed. The researcher presented the final version to three members of the jury to judge (the final version of the questions are presented in Sectioned 11.2 Appendix B).

#### ***1.8.6 Determining the reliability***

Ensuring the reliability of the available data is in the proper form and organization. Selection type of the reliability depends on what kind of reliability should be used. It helps in measuring the content of the questionnaire, e.g. checking the arrangement of the questions to avoid contradictions between the questions or any parts of the questionnaire. Checking the content is another pre-measure that could be applied; the researcher applied this measure by dividing the questionnaire into parts and ordering the questions to allow for proper sequencing for the benefit of the respondents and the study.

Making sure the research has good reliability is a major task: to test the reliability of this study the researcher used the pilot survey as a second measure, allowing



the quick gathering of opinions from a small group of managers. The researcher randomly selected two managers of the PSEs and two of the private sector and provided them with the final version of the questionnaire with instructions to notice the structure and sequencing of all scale questions. The researcher collected the comments and recommendations, and modified the questionnaire accordingly.

## **1.9 Sample and limitation of the study**

### ***1.9.1 Sample of the study***

Private and public sector managers were selected as the study group for several reasons, including the following:

- The previous studies mostly concentrated on the attitudes of public or private sector employees/managers; this means they examined one aspect of the programme, but did not cover the other partner in the process.
- Through investigation of the private sector managers' opinions, an idea of whether there is a commitment by the Saudi Government to give the investors the chance to handle some of these services or sectors can be obtained.
- Success of the privatisation programme depends on co-operation and participation of both private and public managers' in the process.
- In addition, most of the developing countries are now more open to the private sector and attracting it to different investments in the country. At the same time, the private sector has become a pillar of the economy in different countries.
- Private sector managers are more open compared with those in the public, and they have more knowledge about the implementation of privatisation in different parts of the world and the factors which hinder or influence success of the programme. All these factors helped the researcher to take two different opinions about the programme and the problems in a more open way without hesitation. The public managers have more knowledge about the public enterprises and could, as implementers of the programme, provide some new information about them.
- Additionally, the private managers have knowledge of the public sector through their role as businessmen who deal with the government in different projects and also as citizens. At the same time the public managers have some idea about the performance of the local private sector.

- In different privatisation programmes, managers generally create opposition to the process, and that could hinder or delay the process.
- Managers are the masters of change in any organization or in any business, so their views could have an effect on implementation of the programme.

All these factors emphasised the role of the managers in private and public sector, and their participation in this research is very important. For all the above reasons the researcher wanted to present both public and private sector managers as partners in the privatisation programme, as lacking this factor could impact negatively on the whole process.

### ***1.9.2 Limitation of the study***

Although a random sample is the optimum procedure for examining this issue, several constraints, as mentioned below, make such a sample impossible. There are two major limitations or constraints in the design of this study: first, it uses a convenience or non-random sample because of budgetary, time and procedural constraints and sometimes limited knowledge of the privatisation process, so it is not possible to draw a purely random sample of the study subject.

The following describes the constraints in more detail:

- Random sampling is quite time consuming and Saudi Arabia is a very big country, which has thousands of employees in both public and private sectors; some enterprises, such as onsite sampling, will require much more time.
- Privatisation is a new subject; this has created knowledge constraints and most of the managers did not have any idea about different matters related to implementation of the process.
- Finally, the economic constraint: random sampling involves expenditure in distributing and collecting these questionnaires, and the research budget could not afford much for travel and expenses.

Second, measuring true attitudes is not always an easy and accurate job and most of the time it is impossible to achieve. It is important to take into consideration that participants' responses may not always reflect their true opinions because of political, social, economical and sometimes psychological factors (e.g. respondents do not want to be honest, or pretend to have certain attitudes).



To minimize the effect of this problem, the questionnaire cover letter asks the respondents to cooperate fully in order to gain a better picture of their perceptions and beliefs about the privatisation programme and the barriers hindering implementation. Furthermore, the letter assures the respondents their honesty is extremely essential for the success of the study and there are no wrong or right answers.

Using an adequate sample would make it possible to reach reasonable results that could describe managers' opinions and attitudes on different issues of the process. Surveys would allow the study of different groups of managers in different sectors to obtain more opinions and ideas, which allows for comparing their opinions. Although a random sample is the optimum procedure for examining this issue, several constraints, as mentioned above, make such a sample impossible.

Based on the almost overwhelming nature of these constraints, it was the decision of the research team that a convenience sample was feasible. In this study the researcher agreed with his supervisors to use a stratified random sample to study opinions of public and private sector managers several sectors. The objective was to assess their opinions regarding all the matters related to the privatisation implementation programme in Saudi Arabia. The next objective was to establish to what extent the attitudes of any of the sample groups could help in forming the "Efficient Model" to implement the process correctly. This study tried to represent equal numbers from each sector of the population as this will allow reasonable results to be reached.

## **1.10 Distribution, collection and analysis of the questionnaire**

### ***1.10.1 Distribution and collection of the questionnaire***

After the researcher had obtained approval from his supervisors on the questionnaire structure, the managers who should participate in the survey were selected. After investigating the list of bodies targeted for privatisation it found there were various sectors that should participate in the sample, from both the public and private. According to the list the researcher decided to take the opinions of the public managers working in telecommunication, electricity, water, municipalities, aviation, post, ports, health, education, industries (mining, petrochemical, etc. because all these sectors were targeted for privatisation.

The researcher selected managers from the private sector working in construction, aviation, industry, services contractors, financial institutions and advisors; all these types of business have relations with implementation privatisation, which also allows the researcher and the respondents to understand the subject. Before distributing the questionnaire, the researcher discussed this matter with some of his colleagues in different business schools in the UK universities (Edinburgh, Aston, Bradford, and Napier) regarding what type of difficulties could be faced in distributing the questionnaires. Most of them mentioned that after distributing the questionnaires the researcher needs some colleagues to assist in administration of the study instrument. The researcher started coordinating with some of his colleagues and organizations to help in this task.

Several administrators and colleagues undertook to help in following up completion and collection of the questionnaires; this allowed them to represent the researcher in following and collecting the questionnaires. The researcher tried to organize and distribute the work between administrators and colleagues in different sectors and fields. Before starting on the task the researcher discussed and explained to them methods of filling of the questionnaires which will make the task easier for them and the respondents.

The questionnaires were arranged and distributed personally by the researcher and his representatives — there were several reasons for distributing and collecting the questionnaires personally, including the following: avoiding the delay usually experienced in postal questionnaires in Saudi Arabia [12]; meeting to discuss this subject with the participants, because the subject is not well known (this was a chance to meet them, discuss this subject and get as much information and as many ideas as possible); this was also an opportunity to explain the objective of the research to them, and; in Arabic tradition it is better to meet and discuss the subject with the participants personally.

The total number of questionnaires distributed was 224. This number was distributed equally between the public and private managers to avoid any bias on the research. The researcher found it was better to start distributing these questionnaires during Ramadan (the fasting month, one of the holy months for Muslim people) because most of the managers are available in the country.



Distribution of the questionnaires began on 4 October 2006 and lasted more than three weeks.

Distribution of the questionnaires was not easy because each manager needs some time to explain the idea and the purpose of the research. Each participant took from fifteen to thirty minutes to discuss and explain the idea of the research. During the preparation the researcher assessed that completion of the questionnaire should take from 30 minutes to a maximum of 45 minutes. The researcher used both several of Chambers of Commerce and Industry in the country to help him in distributing some of the questionnaires for private sector and in providing names and addresses of the major companies in several cities.

Distribution of the questionnaires for the PSEs was done personally by the researcher and using some colleagues in various enterprises (Saudi Electricity, Saudi Telecommunication and Saudia Airlines companies, Municipalities, Port, Post, Railway authorities). Distribution was easier than collection: after distributing the questionnaires to the respondents, the researcher mentioned to the respondents there would be a coordinator to collect the questionnaires from them.

The researcher and the coordinator found difficulties when collecting questionnaires because most of the participants asked for more time to complete the questionnaire; hence it was decided to collect them in the first week of January 2007. The whole process took from the researcher almost three months in distributing and collecting of the questionnaires: participants had many excuses, such as they were busy, they had no time, and they needed to understand the subject — especially those from the public sector.

#### ***1.10.2 Analysis of the questionnaire***

After collection the researcher started analysis of the questionnaires. This task included processing and analyzing the data. The most important step taken was preparing a table to calculate and summarize the managers' responses in order to find the number and percentages of the response. The total number of questionnaires collected in the field survey was 115: of these 53 were from managers in the public sector (constituting 46.09%) and the remainder were from the private sector.

The second step applied by the researcher was numbering each questionnaire, question and sub-question and establishing coding for each chapter to include the code and the question number. From the beginning the researcher realised this would be a difficult task; therefore he constructed a table for each question; this will make the process easier on the researcher and the respondents.

Prior to entering the data of each question the researcher started investigating and checking completion of each questionnaire. This avoided any type of errors or mistakes which could affect the study. Percentages were calculated for each question and each sub-question related to the main question. After all the tables were finalized, the researcher inserted each question and table into the relevant text in the research. The research used five-scale questions; therefore the researcher used the weighted average for each question and sub-question to calculate the average weights for each item included in the questions.

The main aim of using this method was to evaluate and assess to what extent the managers agreed; this allows for the researcher to determine how strongly they feel about each question or sub-question. Also the weight average determines the degree of importance which the managers will select. To achieve this and calculate the weights the researcher used the following procedures:

- Questions were prepared with weights of agreement or importance, starting from 5 (very strongly agree/very important) to (1 strongly disagree/least important).
- The response frequencies for each answer were added by their weights.
- The results of the second step were divided by the total number of managers who responded to each question or sub-question.
- The figures in the third step were added to each question or sub-question.
- The total results were added to indicate the degree of importance attached or the extent of agreement for each question.
- Finally, all the tables were inserted in different chapters and sections of this study to indicate the frequency or percentage of individual responses to each question.

### **1.11 Organization of the study**

This chapter briefly provides an introduction to the study — the remaining chapters of the study are as follows: Chapter Two is a literature review of



previous work related to privatisation and the problems associated with its implementation, concluding with an identification of the problems hindering some privatisation programmes in some developed and developing countries; Chapter Three reviews different studies on privatisation in Saudi Arabia, reviewing some studies about managing and planning privatisation works and concludes by investigating the barriers hindering implementation of programme. in Saudi.

Chapter Four covers public sector development, performance and the failure of public sector and its PSEs to participate in the development, and the economy; Chapter Five investigates the privatisation programme in Saudi Arabia: it concludes with the barriers that are hindering and slowing the process down in the strategy; Chapter Six investigates employees' issues in the PSEs; Chapter Seven describes the problems concerning restructuring of the enterprises; Chapter Eight discusses the regulator and the regulatory matters; Chapter Nine presents the "Efficient Model" and finally Chapter Ten presents other models which could help in reducing the barriers, and the study's conclusions.

## **2 Problems with implementation of privatisation — literature review**

### **2.1 Introduction**

Financial difficulties are one of the problems that led several countries to implement privatisation, as stated by Claessens and Djankov (2002): “In the 1980s, developed and developing countries were confronted with fiscal crises that put considerable constraint on the capacity of those countries to invest in PSEs. Many of them have launched large and medium-scale privatisation programmes in the last two decades,”. Most of the developed and developing countries implemented the privatisation process in different businesses and sector so they faced several problems in different sectors.

Complexity is one of the problems, as detailed by Mooney (1993): “The privatisation process is highly complex, regardless of the specific operating circumstances affecting the individual enterprises,”. Privatisation is a broad subject with a very large number of publications; it was beyond the scope of this study to review all of the literature. Complexity of the privatisation is one of the barriers hindering implementation the process in different countries because they are lacking the capability to manage and monitor it as it will be shown later in this chapter and the next one. This chapter concentrates on defining privatisation: its history, the motivations and its beginnings. It also covers previous studies which were relevant to implementation of the process, especially in developing countries.

This chapter covers the problems and barriers affecting different countries. Many articles have been written about privatisation, and the literature on privatisation is extensive. This study searched all the relevant literature, which detailed different lessons learned by other countries. The objective is to draw from the literature review and from the privatisation experiences in several countries an “Efficient Model” which will be presented at the end of the research to be used as a benchmark for privatisation implementation in Saudi Arabia, and in other developing countries.

### **2.2 Definition of privatisation**

The scope of privatisation has been discussed in many papers; for example:



“Privatisation has different definitions, and the term is comparatively new, especially in developing countries. It is a type of Public Private Partnership (PPP); PPPs are arrangements between the government and the private sector entities for the purpose of providing public infrastructure, community facilities and related services,”[15]. Another definition was stated by Donaldson (1995): “Privatisation could include any transfer of ownership or control from public to private hands,”.

Dzakpasu (2000) defined privatisation in another way: “The divestiture (as privatisation) approach can be defined as the process in which the state sells all or part of its ownership of SOEs to private investors, local and foreign. The process represents a shift in the economy from a centrally planned system towards a market-oriented system,”. Therefore, privatisation is a partnership between the public and private sectors, and this partnership includes different levels and types of private sector entities becoming involved in the economy and community services. Aiginger (1998) mentions several definitions and methods about privatisation:

First, asset transfer from the public to the private sector, generally through sale; second, deregulation or liberalisation of statutory monopolies (with or without the sale of assets), with particular emphasis on the removal of entry restrictions; and finally, franchising or contracting out provision of marketable goods and services to private sector firms. Corporatization could be added as a fourth type; this is transferring the supply of goods and services from the government to a separate company.

A definition presented by Megginson and Netter (2000): “The political and economic policy of privatisation is defined as the deliberate sale by a government of SOEs or assets to private economic agents,”.

These definitions present privatisation as one of the mechanisms that would help different countries in liberalizing their economy. Liberalization of the economy necessitates removing or changing all the barriers to aid the smooth running of private sector participation, and allow for the participants to work effectively in the economy. This leads to the success of privatisation and also contributes to them working more efficiently.

Privatisation is also defined as a type of partnership between public and private, and it refers to the implementation of a set of integrative policies targeted to attain a policy of various liberalized different economic activities. One of the main policies that should be implemented by the government is minimizing or reducing

control over the economy in order to liberalize it and create competition, which allows the private sector to participate in different activities. Privatisation is a type of reform as defined by Reeves & Palcic (2004): “Reforms such as privatisation, de-regulation and contracting out of public services have altered the boundaries between the public and private sectors around the world. One of these changes, the sale of SOEs, has commanded a particularly high profile,”.

Vuylsteke (1988) mentioned privatisation is “the transfer of commercially oriented SOEs, activities or productive assets of the government to total majority or minority private control,”. Munshi (1992) emphasised this point by stating “The process of transferring productive operations and assets from the public to the private sector and, in this respect, privatisation is much more than selling an enterprise to the highest bidder, as it includes contracting out, leasing, private-sector financing of infrastructure projects, liquidation, mass privatisation, etc.”[22]. These definitions give privatisation different meanings: for example, it does not only mean the transfer of ownership from public to private hands; it also includes the lease and management contracts for the PSEs. It could be used as a type of reform.

Harik (1992) mentions a new definition for the process, stating “privatisation signifies the transfer by the state of public enterprises to the private sector and/or the liquidation of enterprises. However, the term ‘privatisation’ has been used in the literature, in a broader sense, to mean the liberalization of the economy in such a way as to expand the economic freedom of the private sector,”. Smit and Vratilav (1994) mentioned “A broad understanding of ‘privatisation’ includes cases where the legal status of SOEs is changed, and a state-owned entity, functioning as a commercial undertaking in the form of a commercial company, is created. A narrow concept of privatisation does not cover this situation, but focuses on cases of change in ownership of property or a company.

“Privatisation is commonly defined as any process aimed at shifting functions and responsibilities, in whole or in part, from the government to the private sector,” as mentioned by Brostek (1997). Transfer of public enterprises to private hands includes many changes in different fields, such as legal ownership and management; all these changes should be studied, and there should be a



willingness to transfer the public enterprises to private operation smoothly. This indicates complexity of the process and its success needs preparing plans for managing and monitoring the process before liberalizing any entity or enterprise to the market.

Ernst and Young (1994) mentioned privatisation applies to joint public-private ventures, concessions, leases, management contracts, as well as to some specialized instruments, such as build-own-operate-and-transfer (BOOT) agreements. This definition is more specific which puts privatisation' in a wide spectrum; therefore, privatisation' is not limited to the sale or transfer of assets to the private sector, but it could apply to joint ventures, concessions, leases, management contracts, finance and to operating projects between both sectors.

In summary, privatisation' is a type of partnership between public and private sectors; it refers to a set of integrative policies that are targeted to attain a more liberalized economy. One of the main policies that should be prepared by the government is minimizing or reducing the control over different economic activities to liberalize and create competition, and this allowing for investors to participate. Governments could create a good investment environment within the private sector and utilize it in different forms or methods of the privatisation' process (BOT, BOO, etc.).

They could utilize participation of the private sector in different ways, such as financing, constructing, operating and managing projects or services. It could be used in different fields and projects, such as manufacturing, agricultural production and the provision of public sector utilities like water, transportation, health, broadcasting, electric power, etc. It is not an easy task and it involves different activities and different organizations. This emphasises the point that the government should prepare plans to manage and monitor the process.

### **2.3 History and motivation for implementation of privatisation**

Al-Modaf (2003) discussed the history of the privatisation: "It has already been mentioned, however, that the idea of privatisation has been around for a long time: Ibn-Khaldoun and Adam Smith wrote about it as long ago as 1377 and 1762 respectively,". Ramandham (1989) states that with regard to the history and motivations for privatisation of PSEs, two issues must be examined: how

privatisation started and what factors drove it. Although increases in public sector companies continued, a U-turn in thinking began to gain ground as early as the 1950s, mainly in some industrialized countries, for example West Germany and in a smaller way in the United Kingdom.

He adds that poor industrial relations records, non-commercial attitudes and limited concern for customer interests and needs were cited as major reasons for an increasing public attitude against nationalization and in favour of denationalization. Furthermore, a public opinion poll in January 1951 showed a 54% disapproval rate for nationalizing the British iron and steel industry, while only 24% of the population approved of it; the iron and steel industry was actually nationalized in 1951 and was later denationalized gradually between 1953 and 1963. The steel industry was then re-nationalized in the 1960s by the Labour Government and privatized in the late 1980s. In Germany, the Electric and Mining Company shares were offered for public sale in 1959, with Volkswagen and Lufthansa following suit.

Some of the countries utilized privatisation as a source of income and financing various utilities and services. Implementation of privatisation necessitates following the right procedures for managing, monitoring and organizing all the works between all the organizations involved in the process. It involves different matters such as liberalization of the economy, introducing competition, implementing regulations, adopting different laws, etc. Implementing management techniques and procedures takes a long time, as do procedures, collecting information, creating different management steps etc. among different organizations and levels in the country.

Privatisation could be one of the objectives for implementation of economic reform as mentioned by Ademola and Afeikhena (1999):

Privatisation of SOEs constitutes a major policy tool for the realization of the objectives of an economic reform programme (ERP), given the dismal performance of SOEs and the huge burden they impose on public revenue in the form of non-recoverable loans and annual subventions from the Treasury.

The relation between privatisation and competition was emphasised by Jaffery (2000):



Privatisation encourages competition, which results in better products and customer services, whereas state-run economies tend to be inefficient and bureaucratic. Today, failed state-run economies, improved systems of communication, increasing tax burdens and the basic human nature to strive for success provide some of the reasons leading to the trend of decentralizing world economies, such as those in Eastern Europe.

D'Souza and Megginson (1999) stated "During the late 1970s and early 1980s, the Thatcher government in Britain brought privatisation to the world as an effective policy to cure a sagging economy". Privatisation has now been implemented in different fields, and most of the studies mention different reasons for its success, e.g. developed capital market, legal and regulatory system, political commitment etc. On the other hand, different programmes failed for the same reasons, or others, such as political obstacles, opposition from different groups in the country or the programme's lack of clarity.

This emphasises the importance of government's role in creating a good investment environment in the country, allowing for participation of the private sector and utilizing it in different forms of privatisation, such as financing, constructing, operating and managing projects or services. Kent (1987) discusses the history of privatisation in Britain and how they sequenced the implementation which helped in the success of the process:

The practical steps towards privatisation began by contracting out local authority services (e.g. cleaning, parking) and giving tenants of council houses the right to buy their homes. In 1982 and 1983 Amersham International, the National Freight Corporation, Britoil and Associated British Ports were privatized; in 1984 the programme began to gain momentum and many companies were sold. Five percent of British Petroleum was sold, followed by British Aerospace and Cable and Wireless; in 1984, Sea link, Inmos, Wytch Farm, British Gas, Enterprise Oil and Jaguar were sold.

Privatisation methods could be implemented in different types of projects, such as manufacturing, agricultural production and provision of public services, and in utilities such as water, transportation, health, telecommunication services, broadcasting, electric power, etc. All of this indicates that privatisation is not an easy task; it involves a multitude of procedures, some of them visible and others hidden. The success of a privatisation programme depends on how a country has prepared and implemented different management procedures for the process. Fitzgerald (1988) mentions some of the motivations for privatisation and history of transferring multiple SOEs:



Britain took the lead in the privatisation revolution by transferring about one third of its nationalized work force of 600,000 employees to the private sector through the sale of state-owned companies.

Other motivations were stated by Becker (1992): “During the 1990s, this policy became accepted by most countries. The motivations are quite simple: large deficits and inefficient employment and investment practice,” According to Munari et al (2002):

Benefits from privatisation include that between 1977 and 1997 privatisations worldwide generated \$750 billion in revenue, from a total of 1850 operations based largely in Europe and South America. Privatisation plans have increasingly appeared in different economic policy agendas with these main goals, and privatisation could provide access to a new source of capital for governments and also structurally reduce their operating deficits.

Implementation of privatisation is not limited to developed countries; there were developing countries involved, as emphasised by Parker and Saal (2004):

Between 1990 and 1999, total global privatisation proceeds amounted to \$850 billion. Although developed countries accounted for the bulk of these proceeds, the share of developing countries is estimated to have been almost 30% during this period.

The literature indicated that since the 1960s developed and developing countries, such as the United Kingdom, the United States of America, France, Canada, Malaysia, etc. have implemented privatisation for different purposes: for example, to reduce budget deficits, develop technology, reduce the budget burden on different sectors, bring about more efficient management, increase efficiency, develop and improve the quality of the services and introduce competition.

There are some developing countries, such as the Philippines, which have benefited from implementing a privatisation programme, as stated by Santo (1995):

The Philippines’ experience with privatisation bears eloquent testimony to the benefits of the process: first, funds raised through privatisation allowed the government to reduce the burden of taxation and raise revenues. Second, it is democratization of ownership which encourages the participation of small local investors. Third, it offers vigorous competition by bringing efficiency to firms and cheaper products to consumers.

Financial matters are one motivation for privatisation, as stated by many authors such as Bouton and Sumlinski (1996):

The income from privatisation, from the sale of SOEs, between 1988-1994 for the developing countries was more than \$110 billion. This reflects the transfer



of control over 3000 entities from public to private hands. The number of developing countries undertaking privatisation has grown continuously, from 14 in 1988 to over 60 in 1994. Relatively little privatisation has taken place in the Middle East, North Africa or in Sub-Saharan Africa.

Investigation into all the procedures or steps associated with implementation, such as reforms, restructuring the public enterprises, regulating the sector, etc. is required. Starting from the early eighties, with large debt burdens and an increasing budget deficit, there has been a growing trend towards privatisation in developed and developing countries. All the international institutions for funding, such as the International Monetary Fund, the World Bank, United States AID, the United Kingdom Department for International Development and its predecessors, the Commonwealth Secretariat and the United Nations, encourage privatisation.

In addition, industrialized countries have originated or at least encouraged privatisation, and they use it as a tool for reducing the public sector budget deficits and debt, for curbing the drain on national resources caused by loss-making public sector companies and for improving their efficiency and production capabilities. When the public sector becomes too big it affects the performance and efficiency of various economic services in the country.

The main reason for implementing privatisation is the low performance and efficiency of various public enterprises. All these problems reflected on their failure to reach to the targeted objectives. Many studies indicated that customers were unsatisfied with the performance of the public sector and its enterprises. This may be one of the factors leading most countries to use privatisation as an economic reform technique to improve several of services. Diverse forces have driven several countries to implement privatisation, as stated by Mody et al.(1995):

The first of these is the fiscal problem in the public sector that has forced countries to divest their economy. Second is the fact that the development of the private sector has been shown as the pillar in managing, operating, handling, utilizing and developing economic resources.

Roy (2003) mentions the process could develop management: "Privatisation can also result in changing the behaviour of public managers and executives in a positive way. Other countries are looking to improve the management of government organizations; this allows them to improve their efficiency as a

primary motivation to improve government agencies,”. Kikeri (1998) discusses some other benefits: “Countries the world over have launched ambitious privatisation programmes to improve the efficiency of state enterprises, free up resources for social services and mobilize capital for expansion and modernization,”.

Several experts have discussed the benefits of privatisation: “Many previous studies focused empirically on comparing the pre-and post- privatisation financial and operating performance of former SOEs, and they confirm that privatisation, in general, leads to a significant increase in profitability, efficiency, capital investment spending, output and dividend payout,”[42],[43],[31].

Many developing countries implemented privatisation for several purposes, as mentioned by Ozkaya and Askari (1999): “Privatisation in most developing countries has been implemented as part of a broader programme of structural adjustment and liberalization. It is designed to reduce the heavy burden of state subsidies and to limit the role of state intervention in the economy. In industrialized countries, however, privatisation has been primarily targeted toward improving the competitiveness of domestic industries and generating revenue from the sales of state assets,”.

The major difference between the private and public sector is the private sector utilizes resources more efficiently, looking for profit and preparing a plan before proceeding in any type of investment; this has a positive effect on the privatisation process. Before implementation of privatisation some of the public enterprises were loss-making, not utilizing their resources professionally; after privatisation those enterprises becoming more profitable and minimized losses.

Privatisation has several benefits, as mentioned by Miller (1995):

It has reduced the size and scope of government, political interference in management decisions, freed government funds so they can be used in sectors of the economy other than state-owned businesses, created a free market economy, promoted domestic investment, benefited the economy through higher returns on capital invested in privatised businesses, generated new sources of tax revenue, broadened domestic equity ownership and promoted equity ownership among employees of privatized businesses.

Omran (2004) confirmed the benefits: “Privatisation provides better allocation of resources, whether financial, human or technological; an improvement in



operating efficiency is predicted after divestiture,”. Privatisation helps in attracting investment, as confirmed by Young (1998):

It attracts more foreign investment in the country, increases and opens multiple economic activities and employs more workers in different fields. The beneficial results of privatisation are reflected in many areas: improved enterprise performance; increased state revenue; greater choices and prosperity for consumers and employees and wider access to private investment and capital.

Various studies indicated privatisation has helped many countries to improve and develop their economic activities, e.g. telecommunication, water, electricity, giving an incentive for other countries to implement privatisation programmes.

In conclusion, these papers and studies present various experiences from developed and developing countries that have used privatisation programmes for different purposes, not only to raise funds or minimize fiscal deficit. One can see from the authors' papers how these countries utilized the privatisation techniques in different ways and in different fields. Some of these purposes include using privatisation to improve efficiency, change management, liberalize the economy, introduce competition, improve level of the services, improve quality, etc.

#### **2.4 Beginnings of privatisation in developed and developing countries**

Many countries have started implementing privatisation programmes; on the other hand, there are many countries just beginning to implement the process and other countries that are planning to. Some countries hesitated over the process, as confirmed by this study: “In the last two decades many countries have embarked on major privatisation programmes; however, there are still several countries that have been reluctant to privatise; this is particularly true in developing countries,”[48]. The modern era of privatisation began in Germany, as confirmed by Bortolotti and Siniscalco (2004):

One of the first privatisations in modern times was undertaken in 1961 by the Adenauer government in the federal Republic of Germany; the German government launched a policy of denationalization of the economy and sold a majority stake in Volkswagen through a public offering, earmarked mainly for small investors, followed by the sale of Veba shares in 1965”.

Alexandre and Charreaux (2002) The aggregate value of privatisation, as well as the number of firms privatised, and also the average size of the privatisation, all make the French programme one of the world's most ambitious privatisation

programmes. Various countries started privatisation in different forms: some of them started with divestitures, commercialization, denationalization, liberalization, etc. All these types depended on the financial and legislation condition of the country.

Most of the developed and developing countries began their actual implementation of privatisation in the 1970s and 1980s. During these years most of these countries suffered from different economic problems, so most of them used privatisation to develop and improve various services. Planning the privatisation programme efficiently reduced or eliminated those problems in the public enterprises; but some of the countries found it difficult to implement these privatisation programmes.

Difficulty in the implementation of privatisation was not limited to the developing or less-developed countries but also included some of the industrial countries. This emphasises what this study mentioned previously: privatisation is a complex task and implementation of the process requires lengthy procedures. Most of the developing countries asked some of the Institutional Organizations, such as the World Bank and International Monetary Fund, to support them in implementing their programmes. In addition, developed countries, the World Bank and the International Monetary Fund support these types of research to help save countries, economic organizations, poor and unemployed societies, etc.

Bouin, (1992) mentioned "In Malaysia between 1983 and 1989, only 15 out of a total of 988 public enterprises were privatized," Also Craig, (2002) stated "Over the last two decades, privatisation has become commonplace across Africa. According to the World Bank (2001: 259) data, by the end of 1999 3,529 privatisation transactions had occurred across Africa with a total value of nearly \$8 billion, and while some governments are more active than others, in only ten of the fifty-three African countries had no privatisation activity been recorded,".

Baer and Coes (2001), they mentioned Brazil implemented privatisation, beginning timidly in the 1980s when "...the Special Secretariats for the Control of State Enterprises (SEST) conducted a census of federal public institutions, identifying 268 of them as 'federal state enterprises'. The secretariats classified



140 of them as enterprises that could be privatized in the short run, and listed all of them for sale.”.

Finally, as all of the literature review indicated, most of the developed and developing countries have implemented privatisation, with the speed of implementation varying from one country to another. Its success depends on different factors, e.g. availability of strong stock market, banking system, capability of the private sector to handle the process, readiness of the country in terms of financial, economical and legislation, etc. Governments should consider different mechanisms to avoid any harm to financial, economical, employee and service situations in the services and projects targeted for privatisation.

Some countries have implemented their privatisation gradually; they consider it as a new economic policy that may not succeed in their countries. They implemented it carefully with lengthy procedures; they noticed how privatisation programmes failed in other countries and recognised that it may fail in their countries. Many different matters need careful study before implementation with consideration to the country's condition. Some countries implemented privatisation without doing this, and merely followed the procedures of others. There are some procedures which are suitable for European but not for Asian or developed countries.

## **2.5 Experience of Saudi Arabia with privatisation**

Saudi Arabia is one of the countries which have implemented privatisation, as stated by Minister of Labour (2005): “Since 1997 they issued Resolution No. 60, this allows for them to transfer partially or completely public enterprises to the private sector through sale or lease of these agencies. The programme issued objectives, policies, methods, and regulations for the privatisation, and the focus of efforts in this domain has been to liberalize the economy from bureaucratic control and monopoly, to encourage investment, and open new horizons for the Saudi economy,”. The public sector in Saudi Arabia became the major economic power, and at the same time had limited private sector influence.

Public sector enterprises handled most of Saudi's economic activities under the direction of various ministries and succeeded in achieving some of their objectives, especially at the beginning. The public sector enabled the Government to develop many industries and employ more workers, thus decreasing economic

dependence on itself. It also helped it to emerge safely up to now from one of the most difficult periods in Saudi history, when the Government was involved in two consecutive wars in the Gulf region and oil prices went down. Development of private sector could be one of the incentives for privatisation; as the Ministry of Economy (1999) in Saudi Arabia stated:

During the preparation of the Seventh Plan, the Ministry of Economy carried out a comprehensive survey of private sector establishments in 1999 with the aim of defining indicators of present conditions, structural features and challenges facing this sector, thus contributing to the credibility of related economic forecasts and the selection of the best available policies, measures and initiatives to enhance the role of this sector in the coming phase of the development process.

Problems in the Saudi economy increased: the balance of payments deficit rose, local debt (Saudi Government had only debt to the local banks) multiplied up to \$160 billion. Therefore, the public sector was responsible for these problems — it failed to develop its methods and technologies to increase its production and expand to provide enough services. Citizens in some cities were lacking the main amenities, such as electricity, water, telephone, mobile telephones etc. The Saudi Government found the private sector is a pillar in various economic environments, so the Government, in all the new plans, tried to be open and give the private sector more opportunities to run different economic activities. Support for the private sector strengthened it, allowed it to handle several businesses in the country, as stated by this report:

In 1970 the Government encouraged private sector growth, and successive five-year development plans have increasingly emphasized the development of the private sector within the context of a free market economy, with the aim of preparing the private sector to become a major pillar of economic activity [56].

After supporting the private sector from 1970, now the Government has started to bring the sector into various public economic activities. The Government is planning for long-term participation with the private sector in different development plans for the country, helping the sector in handling the privatisation programme. Keeping in tune with the recent developments, the Government is encouraging the participation of local and foreign investors in the development of infrastructure facilities, such as railways, airports, power plants, water supply facilities, ports, etc.



As an example, for liberalization of the Government the Committee on International Trade of the Council of the Saudi Chambers of Commerce and Industry, in co-operation with the Foreign and Commonwealth Office and UK Trade and Investment, arranged Strategic Forum Trade and Investment Opportunities for British Companies in Saudi Arabia in Edinburgh and Manchester (on 24-26th January 2006). The Saudi Government opened all the sectors for investment; those investments totalled \$800 billion [57]. The role of the Government in liberalizing and reforming the economy helped in attracting investment. As Mutrif (2000) mentions about the Saudi experience:

The Government have attempted to reduce spending on public enterprises by increasing their efforts to attract local and international private capital to overcome the financing limitations. They have already put forward a programme to restructure the communication and electricity sectors.

The procedures of the Government for liberalizing their economy were mentioned by the Foreign Minister (2004):

Most of the old development plans were not concerned about the participation of the private sector, but when the Government was exposed to various financial deficits, they starting to think about a method of bringing the sector into different fields. Along with the political reforms, Saudi Arabia is pursuing an ambitious programme of economic reforms. Although Saudi Arabia is fortunate in this regard, many countries in the region are in dire need of a collective effort to solve their economic problems.

In conclusion, most of these countries found the solution to their economic problems in liberalizing and implementing different reform programmes. This allows for participation of the private sector through implementing different methods of the privatisation. One of these countries was Saudi Arabia — it implemented five-year development plans and has increasingly emphasized the development of the private sector within the context of a free market economy with the aim of preparing it to become a major pillar of economic activity.

## **2.6 Theoretical perspective on privatisation**

This section mentions some of the requirements for success of the process. Privatisation is interrelated with many other issues, and if one of them is left out of consideration this can affect this issue directly or the privatisation programme as a whole. The issue could be economical or social, and sometimes managing this effect can be difficult. Wallin, (1995) mentioned “It is important to treat

privatisation as a new policy or as an experiment. Cost and performance must be carefully measured before privatisation so that a proper evaluation of its effects can be made. Like all governmental policies, privatisation should be easily reversible.

From a theoretical perspective, the privatisation process during implementation has strong links with different subjects, such as restructuring (previous debate or valuation of the public properties) or employment (over-staffing or redundancy or unproductive employees), regulators and regulatory framework for utility services (prices or quality of the services) and others. Most governments spend a lot of time and money to establish these services or projects with the purpose of maintaining them as financial, technical or operational resources for the country — if these countries decided to release this service or project, it should be profitable to the country and the enterprise.

This emphasised the importance of considering the above matters when planning and investigating any privatisation programme. Since the privatisation programme is a very complex process, it is necessary to prepare a programme that accommodates these issues and suits the country's condition. Based on the previous discussion, this study consists of four axioms as follows:

- When the public sector fails to provide services in an efficient way, the private sector should take over.
- Implementation of privatisation is very important to most countries in order for them to develop their economic situation; therefore, more attention must be paid to all matters connected with the privatisation programme.
- Privatisation could be implemented in different ways; there are no fixed procedures that should be followed. Development and modification should occur during this process to suit the country's needs. It would be quite risky to implement a privatisation programme without planning and creating an appropriate environment for managing, monitoring and controlling the programme, as nobody would accept the idea of merely transferring the ownership of public enterprises from the public to the private [61].
- Finally, there is a variety of implementation procedures that could be followed by each country. Every country will implement privatisation programmes in different ways, according to its economy, social, and political conditions.



This shows how important it is that the government should prepare studies on the several matters in the process. This emphasises the complexity of this study, a result of the implementation of privatisation process itself being very complicated. This section shows the importance of the Government preparing studies on the methods of implementation. The process needs an independent and qualified management team to monitor, manage and operate different works. Otherwise these enterprises will be affected and this effect would be not limited to the enterprise but may include the economy, employees, services and the country as a whole.

## **2.7 Privatisation forms**

The previous sections indicated that different countries have implemented privatisation in various ways — this section gives summary of the types of privatisation stated by several authors, such as Brostek (1997):

It takes various forms, the most common of which is contracting, which typically entails competition among private bidders to perform government activities with contracting; the government remains the financier and has management and policy control over the type and quality of services to be provided.

Dzakpasu (2000) classified forms of privatisation as follows: “Divestment - sale, free transfer and liquidation; Delegation - contract, franchise, grant, voucher and mandate; Displacement - default, withdrawal and deregulation. It is also one of the major mechanisms by which an ‘overextended’ state reduces its direct involvement in the economy. It may take any of the following forms: full or partial sale or transfer of ownership; sale of assets; leasing arrangements; contracting out; liquidation of enterprises,”.

On the other hand, the potential social benefits of infrastructure development in utility services to bring the services to new areas and to upgrade existing services are among the reasons governments without sufficient capital to expand and modernize utility services themselves are looking to foreign partners, particularly in concessions and Build-Operate-Transfer (BOT) schemes [ 62].

In summary, privatisation is participation between public and private sectors to perform different forms of financing, operating, managing, etc. It takes different forms such as: full or partial sale or transfer of ownership; sale of assets; leasing

arrangements; contracting out; liquidation of enterprises. There are other forms, such as Build-Operate-Transfer (BOT); Build-Operate-Own can use the private sector for the financing of different projects such as roads, airports, utilities, etc. This method allows for the private sector to construct and operate these projects for a specific time.

Typically this type of contract applies for between 20 to 30 years, before transferring these projects or services to the government with little or no cost upon expiration of the terms of the agreement. All these indicated privatisation programmes are complex and need full study to understand the different forms. Each country needs to select the proper form and suitable terms for the country's condition. The complexity of privatisation supports the researcher's decision to investigate the management of privatisation programme implementation in Saudi Arabia.

## **2.8 General perspective on problems of privatisation**

Many developing countries have implemented privatisation to increase the efficiency and develop and improve the quality of services provided by these enterprises. The success or failure of these programmes depends on various factors. Some of the criteria contributing to a successful implementation include a corporation of the employees, legal and regulatory system, etc., while the failure factors could include lack of the government commitment, political obstacles, lack of planning and a lack of clarity in the programme. This research reviewed the literature with regard to the factors that hinder management of the programme during implementation.

This section goes into more depth on the success and failure factors that could affect the management of the process. The two most important sets of conditions for the success of privatisation are country and market conditions [63]. Some of the countries are affected by the economic factors, which could become barriers and possibly affect the economy of the country. Countries must prepare studies on their economic condition before implementing privatisation, and these studies must include various matters related to the economy of the country.

Before implementation each country should prepare a list of questions as follows: Is the banking system working efficiently? Is the stock market developed and



organized? Is the market fully functional? Is there enough depth in the market? Are the capital markets and the liquidation enough to start the privatisation programme? Do the local buyers have enough funds to buy these services? Is the foreign currency fixed with other currencies?

Privatisation depends on the market and country conditions, so the question arises: what is the best time to implement the process to avoid any economic crises during implementation? The government should make sure that all the economic laws are updated and ready for privatisation. These studies should include knowledge of the private sector, capabilities in managing, planning, handling, monitoring, financing, constructing, executing, and developing the entire privatisation programme.

This paper establishes that success of the privatisation is linked to the role of management during implementation of the process. Difficulty in managing the process could be resolved by increasing the coordination between the public and private because some of them could constitute barriers in implementing privatisation. This strengthens the researcher's decision to take the opinions of both the public and private sector managers. These studies presented the experience of different developing countries, which will show how privatisation programmes can be mismanaged. Privatisation success depends on how the programme is managed and monitored, and who handles various activities in the programme.

Most of the experts mentioned the role of legal matters in implementation of the process. Bogdanowicz and Ryan state (1993): "Investors are also concerned about the lack of a consistent legal framework for property rights, contractual obligations, labour relations, foreign exchange and customs laws. O'Neil et al. (2004) mentioned "A major restriction that has limited the privatisation process in Malaysia has been the reconciliation of privatisation efforts with existing legislation. Most of the legal constraints involve laws drafted to protect personnel in public enterprises, landowners, and enterprises with social and national security ramifications,".

Normally every country regards any matter with investors sensitively because they are pillars and major players of the economy in developed and developing

countries. Most of the developing countries have spent millions in attracting investors to finance, develop and bring new technological and human resources to their countries. All these efforts could be lost if they did not prepare and develop a clear and sufficiently legal framework during implementation of the privatisation programme. These legal frameworks should include labour laws, a legal framework, property rights, foreign laws, etc; all these factors help in the success of the process.

Political commitment is one of the necessary factors for the success of a privatisation programme; otherwise the process will fail if there is no support from the decision makers. Developing countries must minimize the political interference in management and establish clear rules to eliminate any interference when starting the programme. The privatisation process deals with different local and foreign investors; if they find there are long procedures in the process they might decide not to participate in it. Therefore the governments should minimize these procedures in the process or establish one-stop offices to handle all their procedures; these methods are helpful in encouraging and attracting investors.

The public is one of the factors that could affect privatisation programmes as stated by Dzakpasu (2000):

The privatisation in Uganda is behind schedule, and one of the reasons for this is the lack of public education on the benefits of process. Initially the programme met with resistance from the public. This was solved by a public relations/education programme which was launched in 1995 in recognition of the public demand for more information relating to the divestiture and reform of the public enterprises and concern for the transparent execution of the privatisation. The Ministry of Finance hired a reputable international public relations firm, Burson Mersteller, which in conjunction with local counterparts conducted public awareness campaigns.

The role of the employees in the process is very strong: "This unwillingness to privatize appears to be associated with a rather negative perception of the privatisation process with respect to the labour force,"[48]. Some developing countries listed employees' opposition as one of the major problems in implementing privatisation, and they hesitated to implement their programme for this reason. They were afraid of the impact of privatisation on the labour forces because the process is associated with releasing and downgrading employees. Some of the public enterprises have made staff redundant or are over-staffed, and



privatisation is associated with different types of restructuring programmes; one of them is the restructuring of policies related to employees.

Before implementing the programme, governments must issue laws protecting the employees of the enterprises, as this allows them to co-operate in the process. Other governments present some incentives and benefits for the employees. As the role of government changes, so must legislation affecting private investment and ownership, capital markets, labour, trade policy, regulation, etc. Governments will have to adapt to the roles of facilitator and regulator and reduce their share of direct investment in economic activity.

The Egyptian privatisation programme, and how the programme suffered from different barriers (legal, attitudinal, political /organizational), are outlined by Younis (1996): “These barriers are not limited to the ones mentioned: there are others, such as restructured SOEs, lack of transparency and the technically difficult nature of the privatisation process,”.

In conclusion, privatisation is one of the most sensitive and dangerous economic processes, and requires detailed consideration of political stability, the growth potential of the national economy, the country and economy conditions and the depth of the local capital market. These combined barriers or problems show how some of the developing countries implemented privatisation programmes without concern for all the matters related to the process. This section approved the necessity of such research and strengthens and supports the researcher’s opinion on the need for this type of study.

Developed and developing countries must give enough thought to all the matters related to privatisation, such as country and economy condition, private sector capabilities, stock market, investment environment, privatisation management team, etc. These barriers/problems could be solved if those countries modified their programmes and were concerned about all the related privatisation matters.

Finally, privatisation programmes face various obstacles, such as economic, employee, legal, management, political, regulatory barriers etc. There are other conditions for the success of privatisation, including studying the regulations, restructuring and employees, etc. In the next section these problems are studied in greater depth.

## **2.9 Classification of the barriers and problems in privatisation**

This section deals with each barrier individually in order to explain each one independently and in depth. Privatisation is one of the techniques that create change in the world; this change could be organizational, financial, in management or in policies, and so on. Normally any change in the world will face barriers or problems from various groups. These groups have different opinions about the change: some will not benefit from it, so they will resist the process, and others will lose the benefits they had before privatisation.

It presents evidence from different developed and developing countries in light of the problems surrounding the privatisation programme. Needless to say, the experience of these countries may not be generalizable for all countries, but there are significant similarities between them. We found most of them have the same conditions in financial, management, employment areas, etc.

There can also be additional opposing factions to the privatisation process, such as public/consumers, employees/workers/managers, political, private sector opposition and more. All these types of opposition must be considered by the governments, and each one dealt with independently. After reviewing the literature, the researcher classified the factors affecting privatisation in different countries as follows:

### **2.9.1 Political factors**

Several countries faced political barriers in the process, as stated Ariyo and Jerome (1999): "The World Bank's recent study (1995) reported the findings of a comprehensive study of the political obstacles to state enterprise reform in Africa,". The Russian Law on privatisation has been amended several times, is not always clear and is hence subject to various interpretations. In addition to lacking clarity, it is not always fully consistent with other pieces of legislation, such as the Law on Foreign Investments and Foreign Exchange [ 64].

Ariyo and Jerome (1999) presented evidence from the Nigerian experiences: "The privatisation and commercialization programme in Nigeria has had its share of failures, however. First, the commercialization programme was less successful in terms of political interference in the management of SOEs. Plane, mentioned (1997) "Additionally, in some "bureaucratic' organizations, the number of



hierarchical levels is important and the distance between some of them is great. A long path of hierarchy and delegation generates uncertainties regarding the information upon which decisions are based as well as risk aversion among public managers,”.

Politicians and decision makers have a direct impact on the country which could lead to effect on the investment environments because they represent the country in most of the business activities, whether national or international. Problems with the political process could come in different forms as stated by Drum, (1993):

Delays in processing applications and in returning moneys for oversubscribed issues, over concentration of shareholdings in certain geographical areas, problems of small investors in obtaining credit from the banking system, some degree of frustration on the part of larger investors as priority in allocation has been given to small investors, political opposition to privatisation (including some opposition from labour groups) and liberalization of the economy in general.

These procedures could cause investors to look for investment opportunities in other countries. Also, Ramamurti and Raymond (1991) mentioned “Sometimes political opposition is not only to privatisation programmes but to other matters such as liberalization of the economy or the creation of complicated procedures in different organizational departments of the government. Another group that may feel imperilled by proposed privatisation is the professional politicians — some political leaders have used SOEs as a source of patronage, wealth and power,”.

Lengthening the process delays implementation of economic liberalization, increasing the financial problems of the country. Finally, political commitment is one of the major factors that affect the success of privatisation, and it is necessary for the politicians and the decision-makers to support the programme, otherwise it will face strong opposition.

The political factor is one of the major and most dangerous factors that can affect the process, and may lead to failure of the programme — every country must be sure there is political commitment to implementing a privatisation programme. Governments should deal with all investors equally and should shorten the procedures and offer incentives to attract investors. The government commitment must be demonstrated through preparing and issuing different laws and legalization to smooth the process.

### **2.9.2 Management barriers**

The role of the managers in managing and implementing change is very important in different organizations. They could delay or hinder several policies implemented by the government, this could refer to different factors one of them they are decision maker in some of these organization. Fage (2001) emphasised the role of the management: "There were delays in implementing privatisation in many countries. Some programmes were disrupted by corruption and the weakness of the administrative machinery in managing privatisation,".

Young (1998) presented the failure of some countries in implementation of the process:

Efficiency and performance did not improve in other cases, such as those in Mali and Zaire, because the privatisation process itself was poorly handled. Buyers were chosen without regard to ability to run the enterprises, or even to meet the purchase price, which was payable in instalments. Chile's first round of privatisations failed for similar reasons, although there is no evidence that performance did not improve after privatisation.

Privatisation could be exposed to several management problems: "The success of privatisation is also constrained by the characteristics of the corporate governance system. Thus, privatisation should imply that the stock market exerts more significant discipline, that there is restructuring of the ownership, modification of the management, and changes in the firm's relationship with shareholders,"[50]. The role of the management team is very important in the process, as Ariyo and Jerome (1999) state: "The privatisation team, or the management team for the process, must have adequate skills to manage the programme in professional and technical ways," .

This is another type of barrier, which depends on the method of management and planning of the programme. Most countries did not give this factor much attention before implementation, failing to apply various types of management techniques to develop and improve the structure of the management. Success in managing the process depends mainly on the selection of qualified management teams with adequate knowledge of privatisation implementation methods.

### **2.9.3 Private sector barriers**

The factors affecting the process are not limited to governmental factors — sometimes there are other external factors that can affect implementation such as



the private sector, as mentioned by Manzetti (2000) confirmed the importance of availability of a strong private sector: “Often governments want to get rid of deficit-ridden enterprises but may encounter strong public opposition or are unable to find buyers owing to market availability, the markets’ willingness to assume risk and the supply of available investment opportunity. Therefore, the availability of tenders is a condition which circumscribes a decision-maker’s opportunity,”.

Cooperation between public and private sectors is very important to success in the process, as mentioned by Rondinelli and Iacono (1996): “Governments and the private sector must work together to plan and implement programmes for privatisation because it will not succeed in social, political or economic environments that are not conducive to efficient operation of private business.

It is surprising that privatisation is faced by private sector opposition. Most of the private sector in developing countries depends on the public sector projects up to the maximum limit. Most of the local private sector managers or employees are afraid of competition from foreign investors because they have more advanced development in financial, management and technological fields. This view was in agreement with the researcher’s opinion, by taking attitudes of the private sector managers, as major participators in the process, into consideration in the research.

#### ***2.9.4 Economic barriers***

Fage (2001) classified the economic problems: ‘There were delays in implementing privatisation programmes in many countries. The reasons were both economic, including the lack of sufficiently developed capital markets and of indigenous buyers with the requisite funds, and non-economic,’. Studying the condition of the country is very important before implementation of the process, as confirmed by Plane (1997): “Chile is another interesting case study: the first wave of the privatisation programme took place between 1974 and 1978, and although massive in scope it proved to be a failure. The programme was launched during an institutional and economic crisis, and the lack of transparency in the property rights transfer procedure was partly responsible for a crisis in the banking system,”.

The authors emphasized that the economic factors could create barriers in different developing countries during implementation of privatisation. The literature shows how economic problems impacted on the process and how seriously these problems were delaying the programme, and sometimes affecting the country's economy.

The availability of a developed, organized, fully functional banking system is necessary to manage, finance, operate and monitor the different financial and economic matters in the privatisation programme. This strengthens the financial sector and stock market, and provides the private sector with the requirements of the capital market. If the banking system is weak, the country's chances of successfully implementing their privatisation programme are much reduced.

These factors are part of the economic and financial problems that can hinder implementation of the process. Privatisation is mainly affected by the availability of a developed and fully functioning banking system, stock market and capital market. Developing countries are affected by various economic or financial problems.

Some of the countries are affected by a shortage of financing in different projects, other countries by a weak stock market or banking system. Most of the economic barriers in implementation of privatisation deal with the readiness of the country to finance and manage this factor by the management team or by the private sector.

#### ***2.9.5 Employee opposition barriers***

Opposition from employees was one of the most important constraints affecting the implementation of privatisation, as mentioned by Hensley and White (1993):

Most of the developing countries suffered from the employees' opposition because they could impact on the economy by delaying or slowing the programme, as happened in the Malaysian privatisation programme. Worker co-operation is very important in the process, and is one of the key problems that the programme has encountered. Resistance of the workers in the public sector has led to the delay of several planned privatisations, according to the Malaysian government (1991).

Privatisation has a major impact on the employees in economical and social aspects, especially if the programme has not been studied well. Therefore, most of the countries listed opposition by employees as a barrier to implementing



privatisation, and they hesitate to implement the programme for this reason. They are afraid of the impact of privatisation on the labour force because privatisation is associated with releasing or downsizing the labour force.

Some of the employees in developing countries created opposition for different reasons, such as lower private sector wages, adjustment of employment levels, hiring of less qualified workers and the fear of significant job cuts. Workers will resist the necessary adjustment of employment: they tend to have an interest for higher wages, keeping retained earning low and not building capital lest asset stripping occurs [74].

Opposition of the employees could come for several reasons, as mentioned by Ramamurti and Raymond (1991) "Labour usually sees itself as especially likely to be affected by privatisation. SOEs often pay higher wages and maintain larger work forces than the private sector. Not surprisingly, therefore, the employees of SOEs and their trade unions often oppose privatisation,". Privatisation effected on employees in different ways according to Pastor (2004): "Opponents of privatisation argue that reduced labour costs and any cost savings are illusory because they are achieved through hiring less qualified and less trained personnel, providing inadequate benefits to employees, using hiring practices which focus on part-time employees, and even using creative accounting methods,".

Employee opposition affected several countries: "Opposition to privatisation by SOE workers has been a major retarding factor in Turkey during the 1995-99 period," [76]. Methods of absorbing employee opposition are mentioned by Henderson: "Employees' opposition to privatisation can be neutralized by offering a share of the net gains to employees as stakeholders,"[77]. Some the countries have organized labour union which could have a greater effect on the process than individual resistance. "Turkish unions oppose privatisation to different degrees, and the employer's federation is also critical of the poor transparency and the irregularities of the privatisation process,'[78].

It is clear from the above literature review that most employees are worried by the implementation of privatisation programmes. The source of these fears are mainly the effect privatisation could have on various aspects of the employment system. Some of these effects could be managed and monitored smoothly while others

could not be, especially if there was a huge release or downsizing of the workforce.

Finally, these papers explained how resistance and opposition from the employees could affect both the privatisation and labour, so governments must protect all the previous employees equally. Employee opposition was one of the dangerous problems in implementation of privatisation. Also, some of the countries have labour unions, whose opposition was more organized. This makes privatisation opposition more complicated. The employees' opposition should be studied to minimize the effect on the employees or on the process. Each country could provide some incentives to the employees, reducing their effect on the process, and at the same time they should study all the matters that could affect employees in the programme. The employee subject will be studied and investigated in more depth in Chapter Six.

#### ***2.9.6 Legal and regulatory barriers***

Implementation of a privatisation programme needs clear legislation, as mentioned by Ariyo and Jerome (1999), it would "...minimize the conflict and interference between different governmental organizations; preparing the legal and regulatory matters smoothes implementation of the process. Privatisation in several African countries has also been marred by errors in policy design and implementation, weak institutional capacity to enforce regulations and lack of credibility,".

This example explains the importance of regulation and how it can constitute barriers to the implementation of privatisation programmes. Some developing countries establish a regulatory organization and change some laws related to implementing privatisation after the process proceed. This allows for interference by different bodies in the process. This barrier mainly affects the developing countries because they lack organized legislation in various fields. Legal matters have relation with several subjects, as Christine emphasised: "Investors are also concerned about the lack of a consistent legal framework for the property rights, contractual obligations, labour relations, foreign exchange and customs laws [64].

Drum (1993) mentions methods of handling the legal problems:



Governments must guard against replacing a public monopoly with a private one by developing effective regulatory institutions, because a successful process entails operating with a strong legal and regulatory system. In implementing privatisation governments must, at the beginning of the process, establish a strong and clear regulatory system.

These examples mention the importance of regulation and how it could constitute barriers in implementing the programmes. Availability of strong legislation and a clear legal environment are some of the factors that help in the success of privatisation. Those factors have a relationship with other factors in the process, such as labour, foreign and investment law, etc. Preparing efficient legislation helps in smoothing the privatisation process: before implementing the process, governments should arrange and prepare all the necessary legalisation related to the privatisation. This factor will be investigated in more detail in Chapter Eight.

#### ***2.9.7 Public and consumer opposition barriers***

The experience of some developing countries affected by this factor is mentioned by Hensley and White:

This factor could affect the marketing of various services produced or presented by the company. Another source of resistance in the Malaysian privatisation programme comes from consumers of goods who have relied on subsidized supplies for decades. The anxiety of these consumers is founded on the anticipated price increases as the government allows the private owner to set and determine his own prices in order to maximize profits.

Source of the public opposition stemmed from the view that privatisation will increase prices, as mentioned by Feigenbaum et al. (1998): “The opposition was directed mainly at the privatisation of major utilities and deregulation of bus services, where it was feared that privatisation would replace public services with private monopolies, leading to deterioration in service and a rise in prices,”.

Finally, loss of public and consumer participation will make a major impact on the privatisation programme, and their opposition will lead to the failure of the process. The source of the public and consumer opposition was the fear that prices, taxes and poverty could rise and quality will be lowered. Some of the countries resolve such opposition by arranging public education programmes, communication and organizing campaigns to explain to the public and consumers the advantages and disadvantages of the privatisation. Implementation of these programmes should be associated with clear procedures and transparency to all levels of the public and consumers in order to gain support for the process. This

factor did not constitute a major effect on the programme in Saudi Arabia, because it is moving slowly and there is no noticeable impact on the public.



### **3 Studies on Saudi Arabia and the international experiences in managing privatisation**

#### **3.1 Introduction**

This chapter reviews some studies prepared about the privatisation process in Saudi Arabia. These studies were done by Government officials, members of international agencies such as the World Bank, scholars and specialized offices. They covered different fields, e.g. financial, regulation, human resources, etc. Some of them covered the feasibility of privatisation, the benefits from implementing the programme, etc.

The researcher prepared this analysis to compare the local experience with the international experience; it allowed him to identify some of the problems associated with the programme. This chapter covers some of the studies about management of privatisation and the types of models that can be constructed for this purpose. This helped the researcher to establish the “Efficient Model” of the management process, and to understand sequence and the works in the process.

#### **3.2 Studies on privatisation in Saudi Arabia**

The purpose of going through these studies is to emphasise on several matters related to implementation of privatisation programme in Saudi Arabia. One of the major matters to investigate these studies is to know if there is/are barrier/s in the process. Also this allows for the researcher to know the weakness and strengths of the privatisation strategy and give wide spectrum about the privatisation in the country. Classification of these studies to different types allows knowing types of the problems could face the programme.

##### ***3.2.1 First study: Support for privatisation***

There are two surveys investigating the investment environment in Saudi Arabia. The first, prepared by the Saudi Chamber of Commerce and Industry (carried out in 1990) covered 140 interviews with investors. Of the respondents, 91% supported a privatisation programme, with 64% of this figure supporting privatisation on a large scale, and the remainder on a small scale.

The second study was prepared by Soufri and Mayer (1991). They conducted a series of structural interviews in the western region of Saudi Arabia with about

fifty randomly selected chief executives in the formal manufacturing sector. According to 82%, business law was perceived to be counter-productive in encouraging businessmen to invest in industrial projects. In addition, 76% thought that these laws and regulations do not protect the interests of industrial firms.

One of the most significant and recent studies written about privatisation in Saudi Arabia, *Privatisation in Saudi Arabia: an Attitudinal Survey*, was conducted by Al-Sarhan and Presley (2001). It examines the background to privatisation in the country and assesses the attitudes amongst senior businessmen and government employees to privatisation. A questionnaire was used to assess the perceptions of private businessmen and public officials pertaining to business environment, opportunities, potential projects for privatisation, timing and constraints.

This was also supplemented by interviews with a sub-sample composed of public officials, consultants and businessmen. The selection of this group was based on the relevance of their business or work to the nature of the subject under discussion. The number of participants totalled 47, and the purpose of these interviews was to provide clearer and more in-depth answers to some of the questions addressed by the questionnaire.

The study was divided into four sections and comprised both close-ended and open-ended questions. The first part asked about support for privatisation, and the survey indicated that 91% supported the privatisation process, which was in agreement with the first study. The second part questioned the objectives and benefits of the privatisation programme.

The third part covers privatisation and the business environment in the country. The necessary condition for enhancing privatisation is the availability of an organized, secure and efficient business environment. This comprises good business laws and a sophisticated banking system and stock market. Of the sample group, 57% indicated that they perceived the market to be unorganized, and 43% were of the view that it is organized. In addition, 43% of the respondents indicated that the financial market provided them with adequate support, with the remaining 53% in disagreement.



Table 3:1. The expected benefits of privatisation in Saudi Arabia. Source: Al-Sarhan and Presley (2001).

Category	Agree	%
Increase in economic efficiency	34	72 %
Improvement in the quality service	36	77 %
Growth of the private sector	31	66 %
Expansion of the services	25	53 %
Competition	31	66 %
Increase in government revenues	23	49 %
Development of small business	21	45 %
More distribution of wealth	35	74 %

While the picture drawn of the financial market is generally acceptable, the variation of answers with regard to business law indicates that only 11% of the respondents think business law in Saudi Arabia is comprehensive, another 23% think it is generally adequate and the remaining 64% believe it is not adequate, reflecting dissatisfaction. The fourth part of the survey was on the choice of privatisation candidates. Saudi Arabian Airlines (Saudia), and Saudi Telecom Company (STC) respectively are strong nominations for privatisation.

This study agreed with the researcher's results because most of the managers agreed with the Government policy for implementing privatisation programme, as will be discussed in Chapter Five. It emphasised the country could benefit greatly from implementation of the process, but failed to discuss the issue of business law adequately: this agreed with the researcher's opinion when considering legal matters as one of the potential barriers to the programme. The Saudi Government drew up a list of services and sectors for privatisation, which will be discussed later.

### **3.2.2 Second study: Privatisation and private participation in infrastructure**

- This study discussed *Privatisation and Private Public Infrastructure (PPI) in Saudi Arabia*, and was prepared by World Bank member John Asbikman (2001). It presented a vision for privatisation in the country that coordinates with the overall vision for 2020 and is consistent with the Kingdom's Seventh Development Plan. He started by giving a brief statement of the vision for

privatisation in the country; the role of the State will be fundamentally redefined from that of an active participant in the economy to an economic policy setter and regulator.

He stated that the private sector will benefit from privatisation in several ways: When it starts, the private sector will grow as a result of the transfer from public to private ownership; the efficiency and service gains will benefit the private sector by lowering its costs, and thereby improving its overall competitiveness; the addition of large professionally-run private sector entities will help in improving the overall corporate governance climate, and the attendant liberalization measures will create new private sector business opportunities, and; a concern often raised is that the local private sector does not have the know-how or capacity to take over government services.

Asbikman then talked about what the main issues and policies facing Saudi Arabia in its privatisation programme were; these are summarised as follows:

- How can the impact on labour be minimized? Because of different employment patterns in the country, where Saudi workers constitute only a small proportion of the private sector workers, there will not only be the fear of lay-offs for redundancy reasons but also the fear that workers will be laid off and replaced with foreign labour force, which tends to be cheaper and more productive.
- Another issue that often arises in privatisation is restructuring: however, sometimes restructuring is unavoidable. There may be the need to break the enterprise up to improve the overall sector structure from a regulatory point of view. There are three main types of restructuring: financial, employee and physical. Employee or labour restructuring involves the retrenchment of labour prior to sale. Where an enterprise is significantly overstaffed this may be a necessary move prior to privatisation.

This study considers two major problems that could have an effect on the process: firstly, labour issues; this matter will be covered in more detail in Chapter Six. The second matter is implementation of restructuring; this will be discussed in depth in Chapter Seven.

### ***3.2.3 Third study: Privatisation and implementation restructuring***

Al-Bazai (2002), the Deputy Minister of Finance, presented a paper on *Privatisation as an Introduction to Reform the Public Projects in Saudi Arabia*.



He briefly described the country's privatisation programme, including privatisation objectives, methods and a list of the facilities to be privatized. The study mentioned that there were some issues which had not been studied properly in the programme, as follows:

- The restructuring issue: the privatisation strategy stated "leave the restructuring to the new owners"; while there are some of these enterprises that need restructuring before starting the privatisation programme, this issue should not be general to all the public enterprises.
- The strategy did not discuss how it will deal with redundancies or overstaffing in the public enterprises; that will be taken up by the privatisation programme and the Government must solve this problem before implementing the privatisation programme by offering them early retirement.

The study identifies some success factors that have to be taken into consideration in designing a privatisation programme. First, the availability of a large and developed stock market and financial entities are helpful in absorbing the financial effects during the privatisation process and provide enough funds. Second, establishing of a regulatory body to set up pricing, provide good quality of services and protect consumers from the private sector monopolies. This regulatory body must be established before implementing the privatisation programme. Third, with reference to overstaffing, this matter will affect the programme by slowing the privatisation process. Fourth, the government should supervise the operation from the planning up to the sale of the project or services. Fifth, the government should have a clear timetable to implement the operation. Finally, government commitment is one of the most important factors in the success of the privatisation programme.

This study discussed several matters that could affect the process. The first factor is the restructuring policy; this is in agreement with the previous study. The employees and redundancies in these organizations could hinder implementation of the process. It also mentioned several other factors, such as the timetable to implement the operation, the process planning requirements, regulation, etc. that should be considered in the process.

#### **3.2.4 Fourth study: Effects of regulating the competition in privatisation**

Al Awaji (2002), Deputy Assistant of the Ministry of Electricity, prepared a paper called *Regulating the Competition in the Electricity Market in Saudi Arabia*. He stated that the Saudi Government could benefit from the private sector when opening investment in the services sectors as follows: Improving quality of the services; reducing the costs and the financial deficit in the government budget; Attracting investment and transferring technology and; Reducing the cost and time to construct and maintain these facilities.

All these benefits could be attained if Government implemented the following procedures:

- Developing all the relevant laws and the stock market
- Restructuring the public enterprises
- Implementing a strategy for long-term investment in the country
- Creating the legal framework to support the interment, and finding solutions for employees in public enterprises.

This study emphasised on success factors for the process such as introducing competition, restructuring enterprises, creating legal framework.

#### **3.2.5 Fifth study: Effects of privatisation on employees**

This study on privatisation and employment in Saudi Arabia, prepared by Husain (2001), surveyed 575 employees of Saudi Airlines to discover their attitudes toward privatisation in the airline industry. The study findings mentioned that with regard to job security, respondents thought privatisation would result in some layoffs, an increase in salaries, and the current employees' having to pursue extra training in order to remain employed by the new owner. Also there were other independent variables included in the study. The statistical analyses mentioned that position in the organization; salary and education all affect the opinions of respondents.

Husain (2001) added that the workers in the technical positions show less fear of layoffs than did those working in administrative or other positions, and those with high levels of education felt more secure than those with lower levels. In addition, he recommends more communication with employees to outline the government's



privatisation process and assure workers that their interests are fairly represented, and early and voluntarily retirements should be encouraged.

The study result indicated that the Saudia employees were worried about implementation of the privatisation programme, especially those working in administration jobs, of which there was a large number

### **3.3 Summary of the studies and barriers of implementation in Saudi Arabia**

In conclusion, the above studies agreed about some of the problems which could face privatisation policy in Saudi Arabia as follows:

- Government commitment to implementing the programme and moving toward the private sector (e.g. lack of a clear timetable) and adequate knowledge at all levels of management; Commitment of the Government in establishing a clear structure for assigning the responsibilities between various organizations.
- Finding solutions to redundancies or overstaffing in the enterprises.
- Eliminating public enterprise problems by applying restructuring techniques in different fields.
- Lack of a regulatory body and creation of enough legislation frameworks to support investment and protect the consumers from the private sector monopolies, and management of these services.

These problems were similar to some of those facing most of the developing countries. In addition, they added other factors required for privatisation, such as the programme needs strong monitoring and more control, and the Government should supervise the operation from the planning up to sale of the enterprise. They agreed that the private sector is better at managing and operating public services or projects, and there is much general support for privatisation. Most of these studies surveyed the business environment, including businessmen, bankers, contractors and managers in the private sector; employees in the public enterprises and their acceptance of the privatisation is also very necessary, as this helps in smoothing the implementation of the programme.

All of the literature, local or international, helped to establish the effect of the business environment in implementation of the privatisation, and their acceptance and co-operation are very important for its success. It gives a clear idea and helps

to realize what type of problems are affecting and hindering the implementation of the privatisation in Saudi Arabia; it also helped in preparing and planning the "Efficient Model" that will help in implementing the privatisation programme in Saudi Arabia.

### **3.4 International experiences studies on designing and managing privatisation**

#### **3.4.1 Introduction**

Some of the International Organizations, such as the World Bank, IMF and some governments and scholars, prepared different papers concerning management implementation of the privatisation; this research will view some of these papers where possible. The goal is to investigate these studies to view how they deal with managing and sequencing the privatisation, and to gain some benefits to this research. Furthermore, this will indicate that the process is not an easy task and it is important to plan the programme before implementation.

A brief investigation of these studies will gain for this research some of the information about management and planning of the privatisation programme. First, the researcher studied some of the problems facing different countries in managing privatisation. Bennett (1997) emphasised the establishing of a framework requires investigation of the process: "A conceptual framework is required for analysis of privatisation processes and agreed measures for reporting them, both in the context of the systemic transformation going on in the former centrally-planned economies and, equally, in the developing (mixed) economies,".

The process needs design, as stated by Rapacki (1997): "It is a precondition for the successful implementation of this strategy. Simultaneously, the speed, directions and effectiveness of privatisation depend heavily on the overall design of the transformation package and the way its different components are being implemented,". Bennett also emphasises this point: "Good design of privatisation policy and methods could make it possible that everyone gains, or at least no one loses — a Pareto optimal result — although no government has yet claimed to have achieved this," (1997). Some countries negatively affected management of the process through a lack of design and planning. As Olivier (1992) says of the Malaysian privatisation programme:



The organizational structure of the Malaysian privatisation programme is centralized and highly structured, its multi-layered process of privatisation planning and organization is at times stifling and lacks effective integration. Moreover, the structure appears to be top heavy at the Main Privatisation Committee level, and suffers from a lack of authority at the technical and functional levels. In order to carry out the number of planned future divestitures, the functional/technical task force will require a much greater level of technical assistance [51].

Managing privatisation programmes through using different planning techniques will provide different advantages to the process, e.g. sequencing the tasks, organizing them between different organizations or in the same organization, drawing the attention of the government to some hidden points, etc. Assigning the responsibilities between different organizations, defining some of the tasks and giving them limitations, specifying and describing of the tasks and specifying the time needed for finishing the process are all counted advantages in the implementation of different management techniques.

The researcher studied several studies in managing and implementing privatisation the purpose is to get benefits from them in establishing the "Efficient Model". These studies prepared by different organizations, states, and scholars as follows:

#### ***3.4.2 The United Kingdom experience***

Miller's (1994) study, *Privatisation: Lessons from the British Experience*, presents the privatisation process used in the United Kingdom, as summarized in Figure 3.1. It included twelve steps. This study went further and divided implementation of privatisation into different steps and levels that make it clearer and more understandable for every organization and person involved. This emphasises the researcher's opinions about studying implementation of the privatisation programme in Saudi Arabia. Miller's study confirmed the complexity of privatisation, showing the process goes through several steps, starting with determining the feasibility of privatisation, describing the services or the enterprises proposed for privatisation, etc.; all these procedures lead to success in implementation of the privatisation programme. Using this process makes implementation of privatisation easier and smoother.

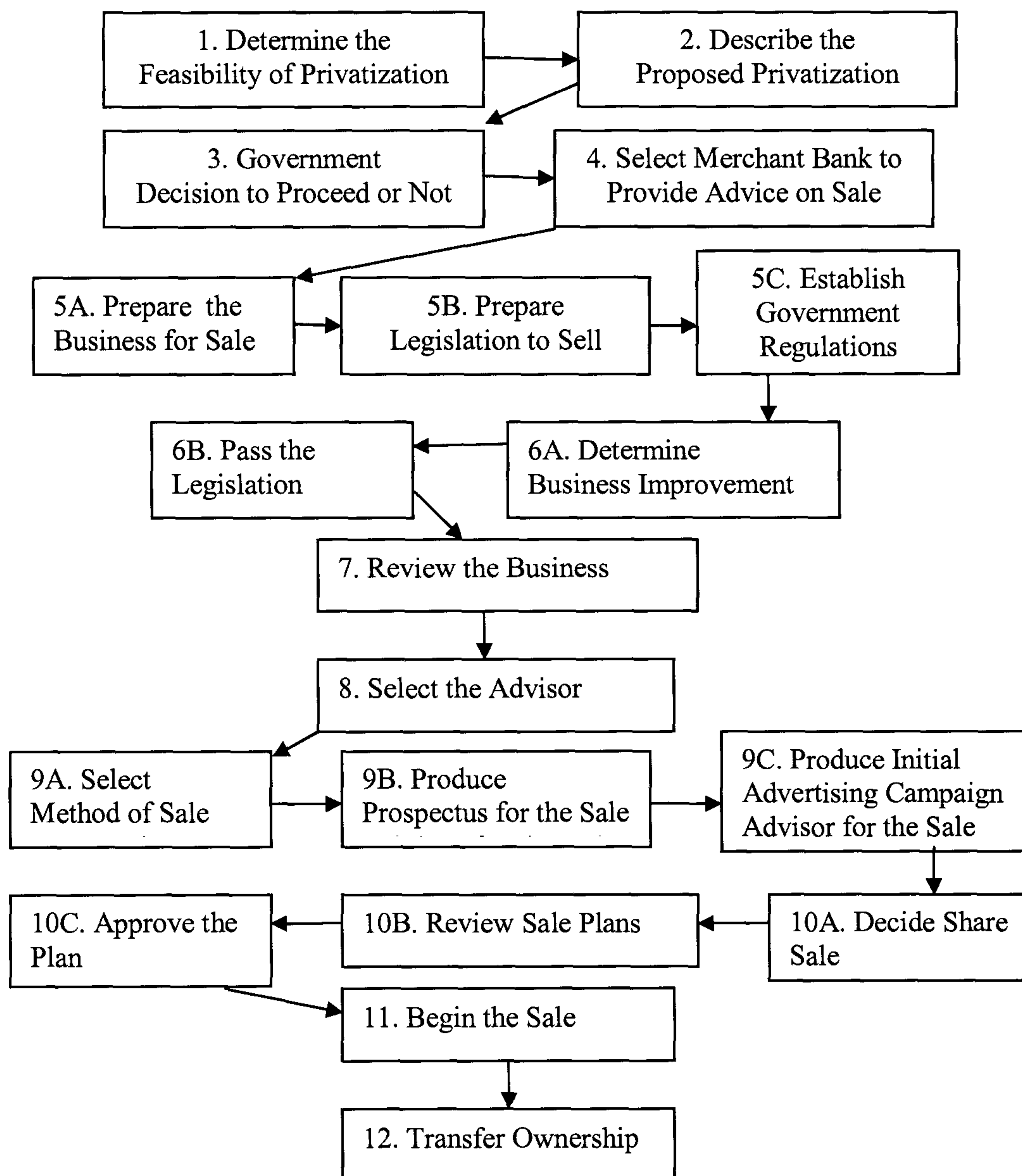


Figure 3:1. Summary of privatisation lessons from the British experience

### 3.4.3 United States experience at state level

*Designing a Comprehensive State-Level Privatisation Programme*, prepared by Eggers (1993), shows how to implement a privatisation programme. It contains nine basic steps for a comprehensive privatisation programme to minimize the state's fiscal crisis. The purpose behind his paper was the \$31 billion cumulative deficit of some American states in 1991. These steps are shown in Table 3.2.



Table 3:2. Summary of designing a comprehensive state-level privatisation.

Step	Description
1	Developing the institutional structure for privatisation.
2	Setting up a programme of adjustments and incentives for the public employees.
3	Identifying the privatisation techniques.
4	Identifying the state services and assets that offer opportunities for privatisation.
5	Determining the legislative and executive barriers to privatisation and revise.
6	Introducing mandatory competitive incentives into the delivery of services.
7	Evaluating the feasibility of privatising and identifying the opportunities.
8	Determining the potential cost savings from privatising services and assets.
9	Preparing a plan for implementation of privatisation.

#### 3.4.4 United States experience at city level

Stainback (1993) prepared a guide called *Designing Comprehensive Privatisation Programmes for Cities*. Comprehensive privatisation programmes involved systematically applying a variety of privatisation techniques across an entire range of government services, facility operations and assets. A city-wide privatisation programme consists of six separate and distinct phases. These phases are clearly interdependent, as summarized in Figure 3.2.

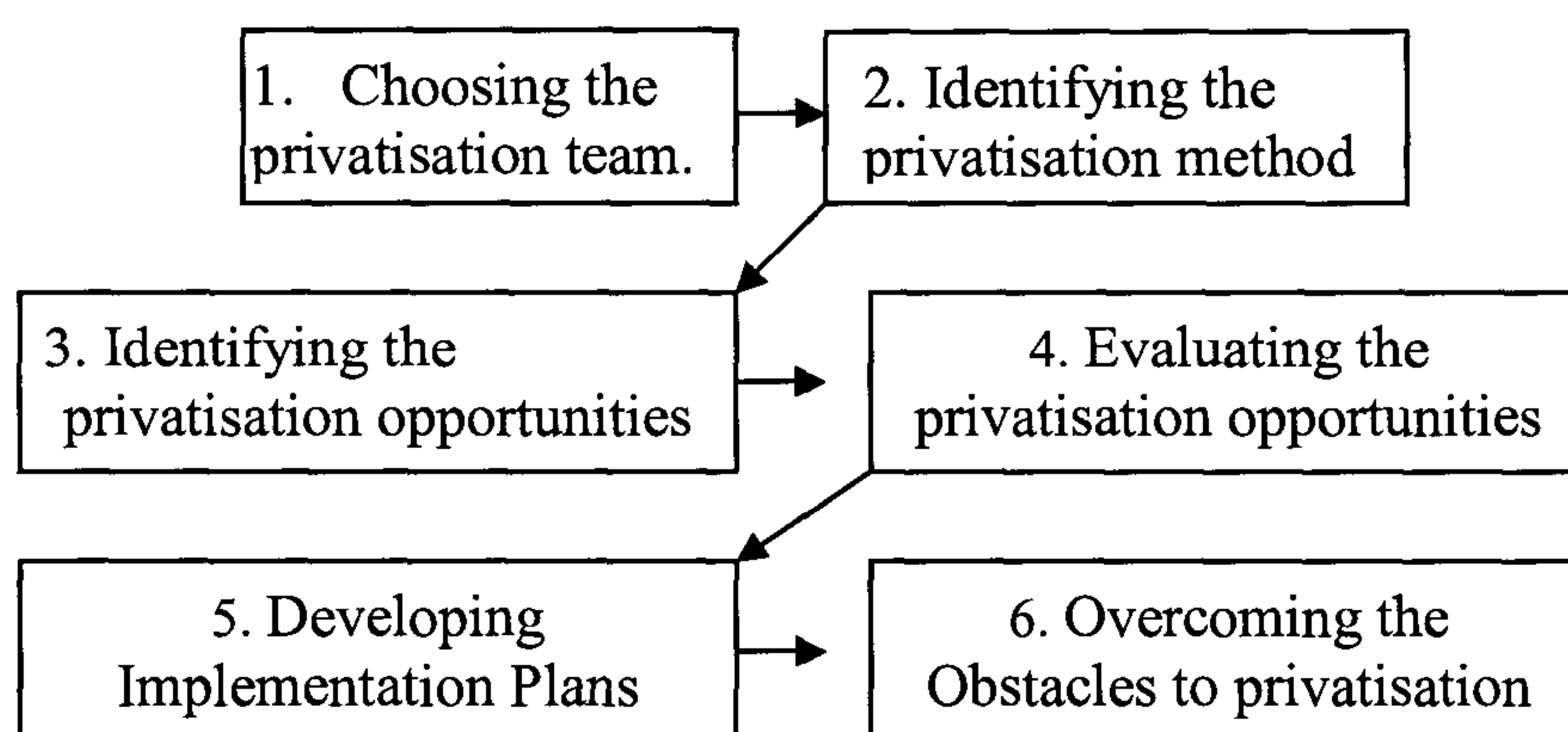


Figure 3:2. Summary of designing of a comprehensive privatisation at city level.

#### 3.4.5 Strategic management of privatisation

In the study *A Framework for Planning and Implementation* prepared by Rondinelli and Iacono (1996), they constructed a framework as shown in Figure

3.3 below which outlines a process for planning and managing privatisation and links it with the necessary structural and institutional reforms.

### 3.4.6 World Bank

The World Bank is one of the International Organizations which support and prepare different studies on privatisation programmes in different countries. They made 143 loans that included public sector reform measures in developing countries from 1980 to 1989 — in Africa, 45 out of 74 of those loans contained a privatisation component. By the latter half of the 1980s, the majority of African countries had received World Bank assistance for privatisation programmes, and the World Bank's recent study (1995) reported the findings of a comprehensive study of the political obstacles to state enterprise reform in Africa.

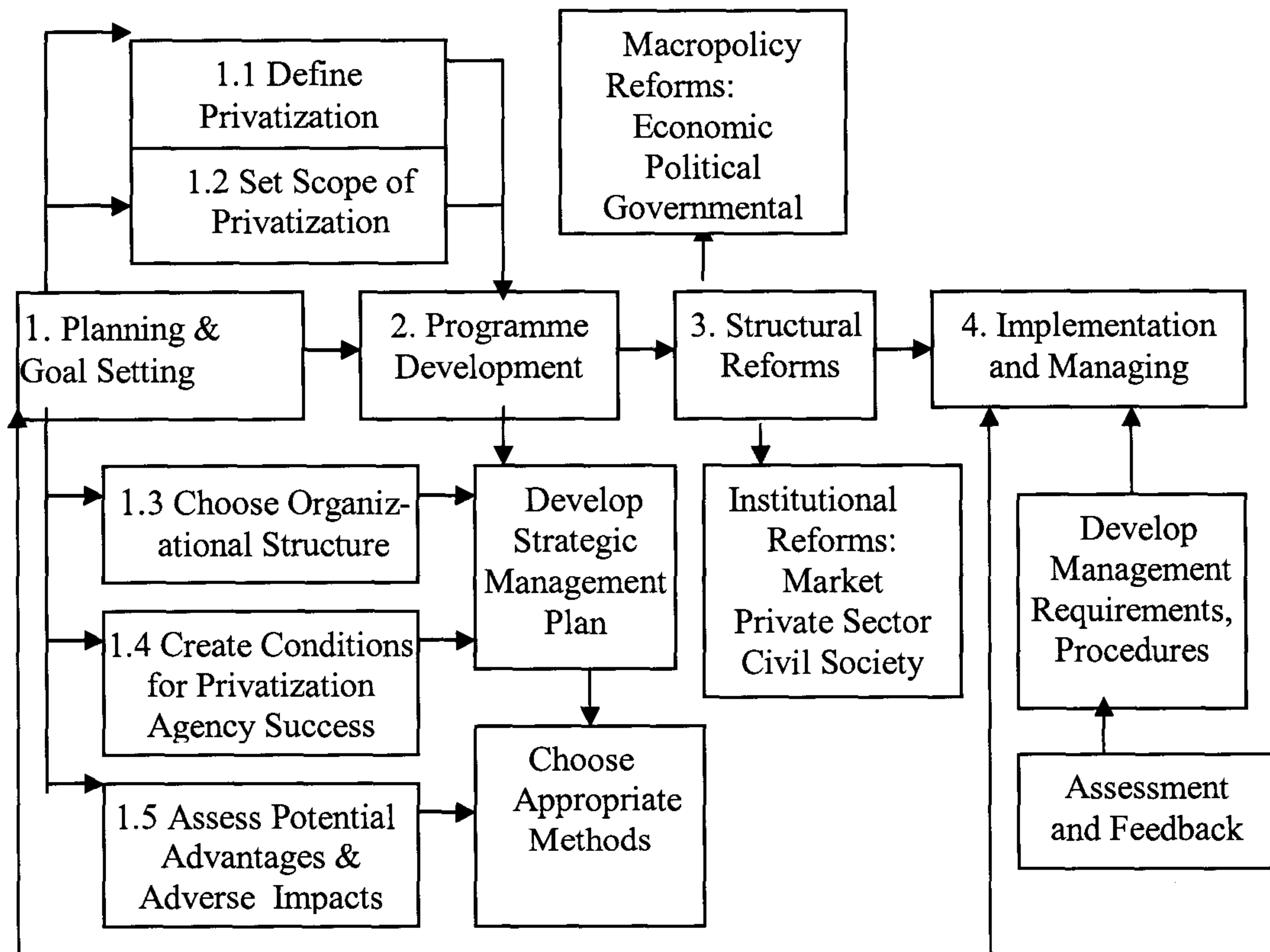


Figure 3:3 Framework for planning and implementing privatisation

The World Bank Group has actively supported privatisation in more than 180 Bank operations, fifty advisory support and investment operations by the International Finance Corporation (IFC), and three projects by the Multilateral Investment Guarantee Agency (MIGA) [92].

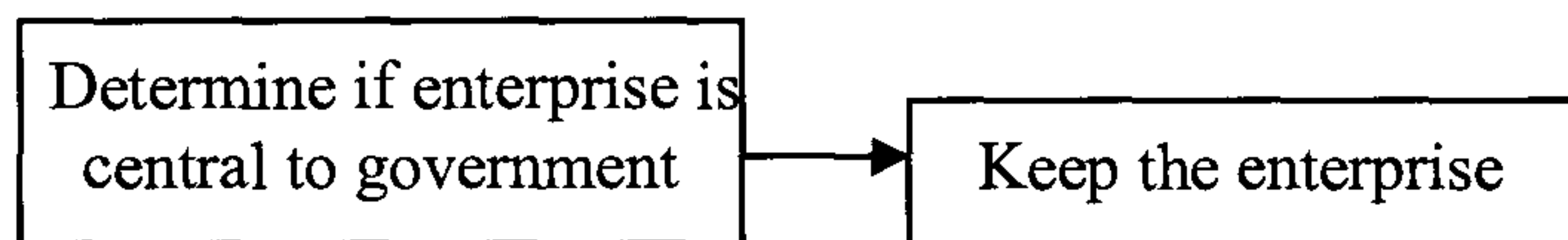
The study prepared by the World Bank and conducted by Welch and Fremond (1998) (Technical Paper No. 403) is a case-by-case justification for implementing



privatisation, and presents a case-by-case approach to privatisation techniques and examples. It suited medium-size and large enterprises and formed the basis of privatisation programmes worldwide. It identifies two phases: the first preparatory and the second moving to sale. It also mentions five key steps: first, identification and selection of candidates; second, the feasibility study; third, privatisation planning; fourth, the legislative or approval phase; fifth, implementation or transaction. This study is summarized and shown in Figure 3.4.

Step one:

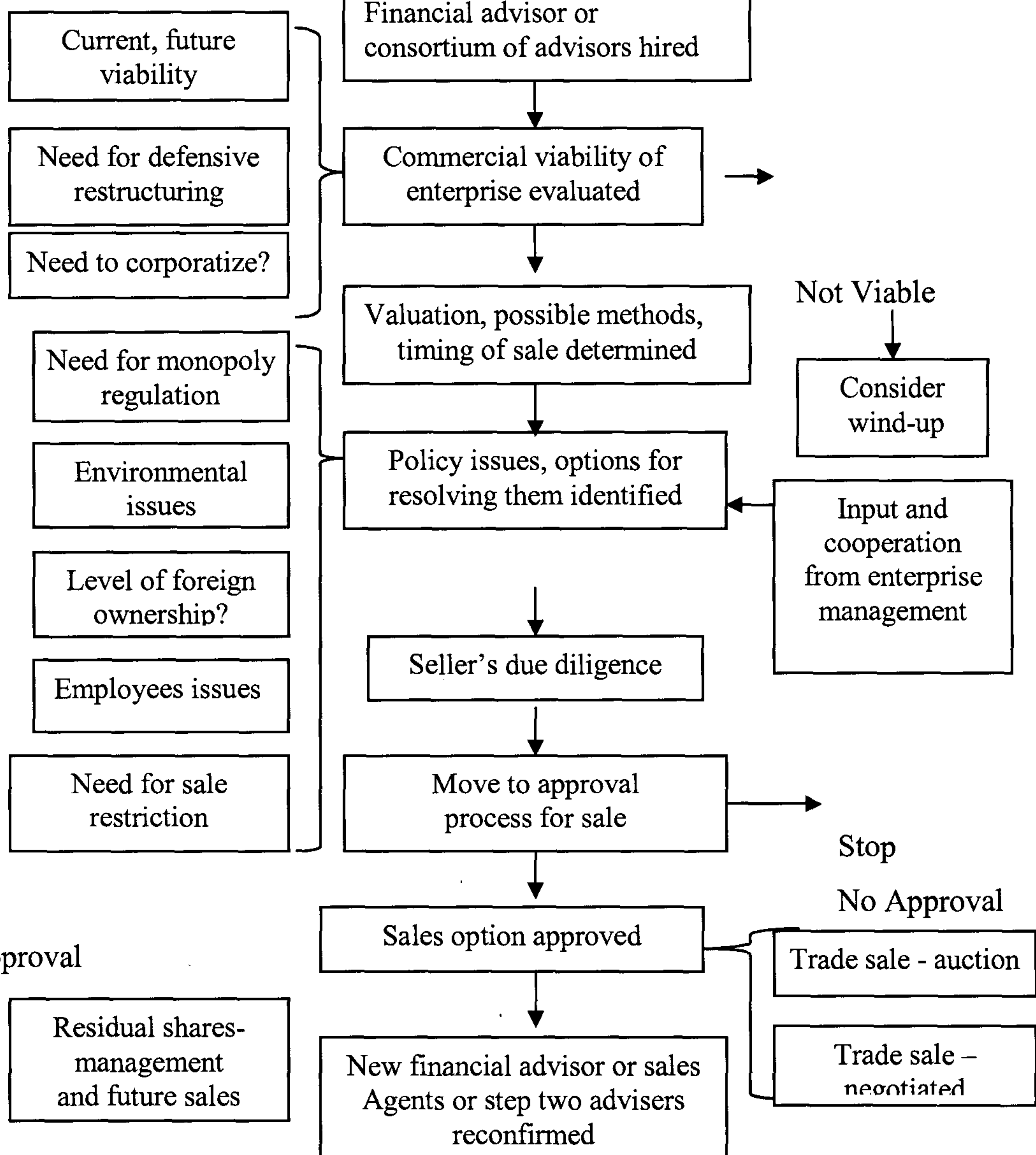
Identification of  
Privatisation candidates



No

Step two: Feasibility study

Yes



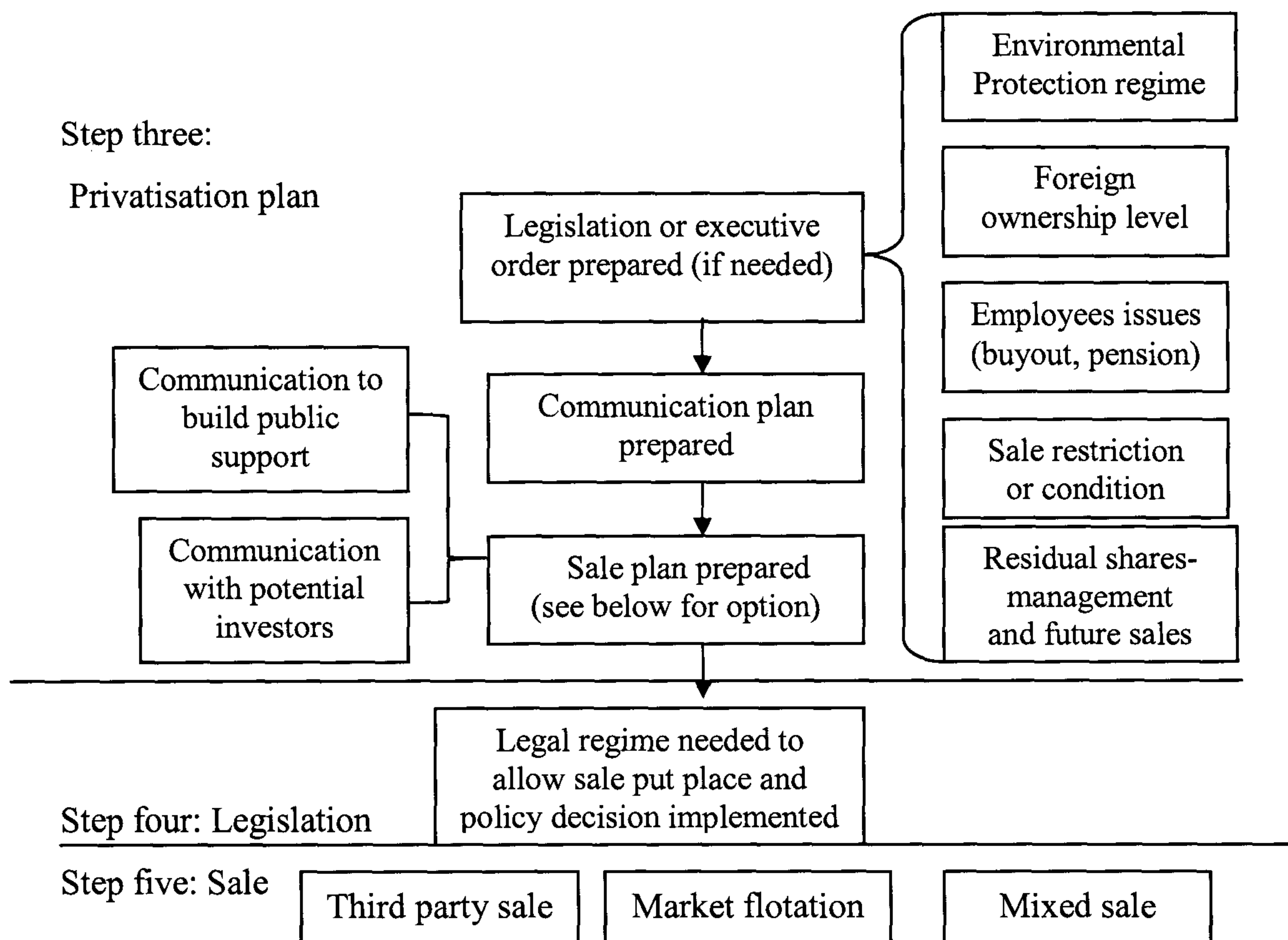


Figure 3:4 Summary of Technical Paper No. 403.

### 3.4.7 United Nations Development Programme

The *Managing Privatisation* study prepared by Shehadi (2004) (United Nations Development Programme, UNDP) shows that privatisation is a complex and demanding process. The strategy and institutional set-up for its implementation have to be designed to meet the circumstances and the challenges of each country. The following matters should be considered for the success of the privatisation programme, as shown in Figure 3.5.

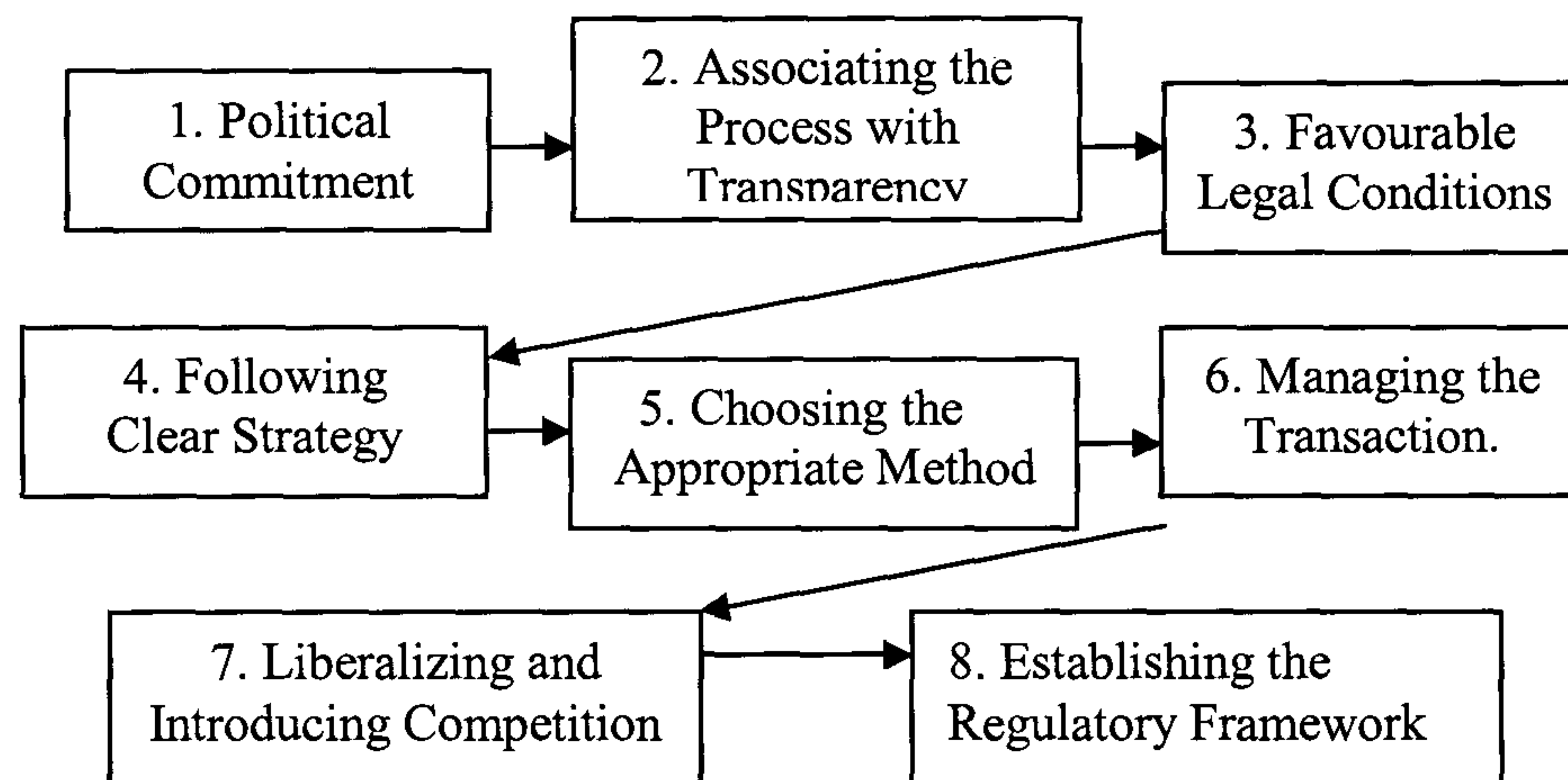


Figure 3:5 Matters that should be studied in managing a privatisation programme



### **3.5 Findings from the international experiences**

These studies were very helpful for this type of the research because most of them had been prepared by a group of experts in implementation privatisation. Also, they are working or have worked in different organizations such as the World Bank. They added useful information to the research which allowed the researcher to investigate and cover different matters related to implementation of the process at different levels. They gave some guidelines on planning the process and how it could be implemented in the process.

World Bank study shows the lengthy procedures required in the process and how they are spread between different organization and layers; a great deal of consideration is needed for the sequencing of the multiple steps in the process. This study could be used as a guide for different countries, and it added some benefits to the research as follows:

- It shows the importance of planning the privatisation, especially before starting the process on the enterprise. It is essential for governments to develop a plan for the procedures before implementation. To get support from different organizations and to deliver sustainable long-term benefits to the country, economy and employees, it has to be planned and managed.
- It gives an idea of how the implementation of a privatisation needs to go into some detail — for example, considering whether the privatisation of the enterprise is desirable at all levels in the country — otherwise the programme may fail.
- Foreign investor participation is one of the important factors which help in the success of a privatisation, but the government should consider the level this participation in the ownership of the public enterprise should be set at.
- Labour issues are among the dangerous obstacles when implementing a privatisation. Employees' participation in the process helps to eliminate their resistance. Discussion and provision of some offers to employees will help in implementing the programme.
- Identifying and specifying the candidates to be taken into the privatisation helps in accelerating the process. Therefore, the country should establish general rules on how to determine which candidates will be privatized. Studying the feasibility of the public enterprise gives the decision-maker an indication of how

this service or project will work in the market. The study should be prepared by advisor.

- There are different ways of selling the public enterprises which could be used, and each government should check which one suits their country's requirements and would not harm their economy. Some of the developing countries used public offering, share flotation, etc.

Secondly, Miller's mentioned other significant issues and elements that are essential in the success of the process, as follows:

- Transferring the enterprise ownership from public to private sector is not easy, and there are many steps to be considered before it can be completed. There are countries do not have enough experience in privatisation, so they could hire advisors in different fields. Using more experienced offices such as advisors is one of the most important elements in the success of the process, to help them in determining the feasibility of the privatisation. Advisors' can be used in different fields, such as legal, economic, accounting, investment, banking, etc.

- Government commitment from the top politicians and decision-makers is very important for the success of the privatisation programme to ensure that the government agencies are coordinating the process together. They should maintain coordination and supervision throughout the process and otherwise it could be delayed or slow down.

- Preparation of the public enterprise for the market by introducing some of the private sector methods, strengthening the management team and developing different procedures. This allows for them to implement and practice some of the business and marketing techniques.

- Developing the existing legislation and laws to sell the public economic activities, and creating a private corporation. The government can prepare new legislation which will suit the enterprise in its new condition. Most of the investors are willing to participate in the privatisation process if all legislation and laws are ready and clear. Establishing a regulatory body is one of most important steps in implementing and managing the privatisation programme. A regulatory body eliminates the monopoly, manages and plans the services and prices, licenses the services, monitors the quality of the services, etc. Establishing this organization should be one of the government's priorities.



- Reviewing all the plans for the sale and making the necessary changes, determining the percentage of the shares which will be taken to the market if it is a partial privatisation, and the share price.
- Preparing the communication and the media for the advertising campaign and educating the public to build support from the public, employees and political groups. The government could use different methods of advertising, such as newspapers, TV, campaigns, etc.
- Monitoring the system is one of the most important and necessary tasks for the management team in the privatisation programme, in order to evaluate the success of the methods that were implemented in the process.

Thirdly, Eggers' guide shows how important it is to start with developing the institutional framework. Employees form one of the major obstacles in the programme, so this guide emphasised the importance of studying this matter in depth and more carefully. This is an agreement with the World Bank Technical Paper No. 403 prepared by Welch and Fremond in 1998. Their ideas/policies should be studied in the early stages of the programme to avoid conflict and resistance. The government could provide some incentives for the enterprise employees. Using different privatisation types depends on the services or projects and the unique country conditions. As an example, some countries need financing sources — this would allow them to use BOT; other countries have loss-making enterprises which they could sell, and so on.

The government should decide which techniques will be used. It is shown there was opposition to implementing privatisation, and the government should determine and study how to deal with such opposition. This opposition could be groups of the community, employees, decision-makers and the private sector. Introducing competition will be helpful for a privatisation programme to manufacture good products and provide good services at low prices. Competition in the beginning could be mandatory. Countries could prepare cost saving before starting implementation privatisation to check whether the programme will provide savings or not.

Fourth, Stainback's study added some new ideas as follows:

- Preparing and defining the objectives of the privatisation before implementation and determining the government's reasons for the process. This makes it clear to the public, employees and investors.
- Selecting or choosing the privatisation team is one of the most important elements in the success of the process. The programme needs a team who has the knowledge and the ability to participate in developing the privatisation plans, and the capability to analyse the reports, studies, etc. The team members should have a range of expertise in different fields, such as financial models, cost analysis, legislation, assets valuation, business management and so on. The team must be aware of the different matters involved in implementation of the programmes such as:
  1. How to implement a privatisation opportunity.
  2. What are the obstacles to implementing the programme?
  3. When should the project be implemented? etc.
- The privatisation programmes face some obstacles or barriers from different parts of the country. Overcoming these barriers increases the speed of implementation of the programme.
- During implementation, the process needs the preparation of various types of plans in different fields. These plans are very helpful in smoothing the implementation, making the programme clearer and more understandable for the employees, decision-makers, public and investors.

Fifth study prepared by Rondinelli and Iacono indicated the complexity of implementing privatisation. The study showed how the process works between different organizations and layers of management. It showed how the privatisation tasks could be divided into planning and goal setting, developing the programme, structural reforms and implementing and managing the programme. These tasks could be the main tasks or level in the process, each with sub-levels.

This study guided the researcher that implementation of privatisation could be divided into more than one level such as: in constructing the Efficient Model for implementation of the privatisation responsibilities that could allow for splitting the process into several levels as follows: One level could handle all the tasks related to planning and designing the process. Taking decisions on implementation of structural reforms and approving implementation of the



process could be handled by another level. The last level could be the implementation level, which could handle applying the programme on the service or the sector. This means the process can be divided into three levels or more according to their requirements.

This study mentioned some new items, such as:

- Constructing a structure with clear responsibilities and authority for implementing the programme. This structure could assign all the responsibilities between these organizations. This includes planning, monitoring, coordinating and managing the process.
- Changing the laws and the companies' systems to make them suitable for privatisation. This means transferring the enterprises from the public to the private sector with reasonable legalisation, and eliminating the legal barriers. This change can be implemented before proceeding in the privatisation process, or can be part of the restructuring programme.
- Developing a comprehensive restructuring plan. It helps the enterprise achieve success in their programme and introduces some of the private sector methods.
- Developing the management requirements and procedures. This allows for developing the sector or the enterprise procedures in managing the process. This emphasises that implementation of a privatisation programme should entail studying the enterprise or the sector before applying the process.

Finally, the Shehadi study revealed several significant findings such as:

- It indicated that political commitment is the first priority in privatisation. Political commitment is needed to overcome various types of obstacles to a successful programme, such as opposition, bureaucratic inertia and lack of coordination. Transparency is an important factor in making the process clear for every one who is involved, and it must be maintained throughout the whole process and at all levels.
- The privatisation team must report and announce to the media about the kinds of the process, procedures, prices and evaluation of the bids that have been taken to keep the public and employees involved in the process. This keeps the process away from public opposition.
- Surrounding the process with clear legislation improves and develops the operation and eliminates the conflict between different levels and organizations.

This could help most of the countries to develop, change or rewrite their old legislation system, and modify their laws to fit the new legalisation.

- There are many privatisation methods, but each country must select the one which is suitable for the country's condition. The selection of the method is very sensitive, especially if it is for the infrastructure services/projects, because it provides services for the public. Therefore it should be provided at affordable rates and deliver good quality.
- The process is a complex and sensitive one because there are different fields involved, e.g. legal, accounting, management, cost analysis, banks, investment and infrastructure experts (telecommunication, water, electricity, etc.), so the process must be managed and controlled very well.
- Introducing liberalization and competition before privatisation will maximize the benefits of the process.
- Competition is very important in the infrastructure projects and each country should consider the proper time for implementation.

### **3.6 Effects of using management and planning techniques on privatisation**

Designing the process requires the study of various issues, as Gibbon (1994) emphasises:

Privatisation exercises are as individual as they are complex, but fundamentals generally include consideration of industry structures, commercial and regulatory regimes, capital structures, sales arrangements and the nature of the continuing relationship between the government and the divested enterprise. Decisions must be made on methods of sale, special arrangements for employees and customers, marketing, logistics, timing, and the structuring and management of overseas syndicates.

This paper explains the complexity of the process and the conditions for success which must be available when implementing. All these factors mentioned above in this paper need planning, managing and coordinating; missing one of these factors could have a big impact on the process. It needs great effort from various organizations and authorities in the country. The main purpose of using various management techniques is to keep the process under control and monitoring multiple activities in privatisation.

Market conditions are also an important determinant for success of privatisation. Privatising enterprises that produce trade able to operate in competitive or



potentially competitive markets should lead to improved efficiency, provided that divestiture can be conducted transparently. Privatising public enterprises that operate as monopolies is more complex, and the regulatory capabilities of the country become a crucial factor. The absence of certain economic conditions, such as developed capital markets and effective regulatory bodies, make privatisation difficult and will delay it. In many developing economies, lack of an effective dialogue between government and the private sector in the design and management of a privatisation programme has led to less-than-enthusiastic or even intransigent participation in the programme by the parties on which the programme relies for success [73].

Drum (1993) argues that the process could be classified to different tasks and organizations:

The implementing agency should take the necessary time and effort to ensure that the privatisation process is well thought through, planned and executed. Others opposed this approach on the grounds that rapid and comprehensive privatisation could not succeed in the absence of related institutional and legal frameworks, which could not be created overnight.

Christine et al. (1993) also discuss the same idea:

The St. Petersburg Property Committee (SPPC), which is in the office of the Mayor of St. Petersburg, is responsible for overseeing the preparation of the plans for privatizing all SOEs, to approve the privatisation plans developed for any of the city's enterprises and assets in the city, excluding highly sensitive or strategic sectors listed in the Russian State Privatisation Programme of July 9, 1992.

Privatisation success depends on a strong plan; the literature shows the experience of some of the developed and developing countries in the implementation of multi programmes, and how it is essential to plan privatisation before implementation. These studies presented the experience of different countries that related to the effect of the privatisation on the country or on the public enterprises; they reviewed reports, records and documents to present those experiences.

The process needs several management techniques that could be followed, such as gradual implementation, preparing the plan, etc. as mentioned by many authors: "Hence, privatisation should proceed on a gradual and experimental basis with a range of hybrid or intermediate forms of ownership,"[95]; "Great care has been taken with the planning and the implementation of the privatisation programme in

Nigeria,”[63]. These studies indicated how different countries implemented privatisation in different ways and how the process can follow different procedures which were suitable for every country. However, it includes different steps or stages, such as managing and planning the financial markets, the economy, the public enterprise and the labour issues.

Miller (1995) planned the process with 12 steps, consisting (in the UK) of “...12 intricate steps that may take several years to complete. Many of the steps include preparing the business for sale by strengthening its management team and by introducing private sector methods and attitudes,”. A privatisation exercise demands the coordinated application of a wide range of skills and expertise, from a broad conceptual sweep to logistical minutiae [94]. Rapacki (1997) emphasizes that differences in the pace of the reform between countries in eastern and central Europe were the result of differences in initial conditions, such as the relative power of the labour force in Poland and the higher private shares in the economies of Poland and Hungary. He underlines the need to plan privatisation as a long-term and complex process of changes, including changes in attitudes, value, perceptions and mentality.

Buridi et al. (2007) mention the several types of planning to be used on the privatisation process, such as: planning the privatisation policy; planning the financial market; enterprise planning; planning the labour matters; planning the legal and legislative matters; preparing the employees and public for the privatisation programme. The benefits of planning allow for the planner to “...break down the activities into separate tasks, which helps the participator team to handle their tasks and work more easily. The plan can be narrative or graphical, and it can cover events from the broadest summary to the smallest detail,”.

The privatisation team does not only need knowledge in privatisation; there are other fields they should know about, such as planning various activities in the process and managing these activities by applying various of management techniques (such as sequencing the privatisation works with each other). This emphasises that the Government should consider all these factors during selection of the privatisation team; this would allow for the team to deal with the process more easily and smoothly.



The benefits of implementation planning are mentioned by Buridi et al.(2007): “The impact of the planning on the privatisation depends on the ability of the country to implement effective planning procedures. It will be helpful for them in finding the constraints and the solutions for them to eliminate the barriers that could face the programme. Also, it increases the speed of implementation of the process,”.

There are different management techniques which could be used in implementation of privatisation: one of them is the planning technique. The purposes of planning are to persuade people to perform tasks before delay of the operations of other groups of people, in such a sequence that the best use is made of available resources, and to provide a framework for decision-making in the event of change [98].

All these studies indicate that the privatisation process is a set of integrative policies and measures that aims to attain a more liberalized economy and enterprise, based on competitive market forces; privatisation includes multiple interrelated steps and levels between different departments and organizations. The process is affected by methods and ways of planning and managing the programme, so all the tasks in the process need coordination, managing and monitoring efficiently.

Planning allows for sequencing of the activities and will be linked on a time-scale that allows ensuring that all the priorities are clear and identified. In an organization with scarce resources and limited time, planning is the only way to get things under control and optimize activities. It allows scheduling of usage of scarce resources, both within a project and across the firm. Clearly defined individual tasks are easier for people to focus on than a whole project in which they play only a small part [97].

It is necessary for all governments to develop a plan or a framework. It should include all the issues related to implementation of privatisation on public enterprises, such as labour issues, financial markets, previous debate and private sector capabilities in handling the programme. Planning the privatisation takes lengthy procedures and needs sequencing of the process in more than one phase.

The plan reduces and minimizes barriers and the resistance to implementing privatisation fully.

Governments should prepare a plan with clear procedures before transferring different enterprises to the private sector. The effects of applying different management techniques give the decision-makers a clear vision of the enterprise problems and how the process could be implemented. This helps the programme gain support from different levels of politicians, economists, community and employees [96].

In conclusion, the researcher has listed some tasks that can be added to planning privatisation, as follows:

1. Denationalize and sell the government-owned enterprises (partly or wholly).
2. Preparing a plan for using different privatisation methods (BOT, BOO).
3. Planning to use operational measures such as leases and contracting out.
4. Create laws and regulations that encourage competition.
5. Establish regulation.
6. Implement restructuring policy on the public enterprise or on the economy.
7. Adoption of different policies in many fields, increasing liberalization.
8. Implementing different planning and management techniques in the process.

### **3.7 Conclusion**

Saudi Arabia is one of the developing countries that have decided to implement privatisation since 1997. They have started implementing the programme, and the first case of privatisation occurred with the decision on the telecommunication sector in 2003, when they agreed on the sale of 30% of shares (20% for citizens and 10% for governmental funds) in the STC to the public. The Government implemented privatisation for different reasons: diversity in income resources, dissatisfaction with the performance of the public enterprises, improvement in the low efficiency and quality of the enterprises, etc.

Since they implemented the privatisation policy in 1997, the programme has been moving very slowly and there were barriers associated with the process. This research will investigate each barrier independently in more detail to establish if they constitute a delay in implementing the programme. The research gained benefits from a review of different literature: for example, it confirmed the



importance of the research and the subject, and the researcher was well guided in selecting the problems to be investigated, such as government commitment to implementing the strategy, issuing privatisation strategy with clear responsibilities, in addition to the availability of legislation and regulatory frameworks and methods of restructuring in public enterprises.

It also discussed the problem of redundant employees in the public enterprises and the effect of this problem on implementation of the process. The literature review made it clear that the private sector is a major pillar in the privatisation programme, and its participation is one of the major factors contributing to its success. This guided the researcher to include the attitudes and opinions of the private sector along with the public managers. Both of them were major participants in this research, which will give the research a wide and clear vision from the major participants in the programme.

Also, the literature helped in selecting the most suitable methodology for this type of study. It also enabled the designing of an “Efficient Model”, which is presented at the end of the research. This frame could be used as a benchmark in assessing the problems of implementation in Saudi Arabia’s privatisation programme.

## **4 Performance of the public sector and its enterprises and the reform programme**

### **4.1 Introduction**

Saudi Arabia developed and expanded its large public sector, starting in 1956. The purpose was to utilize oil income and provide the necessary services for the country and the citizens' needs. Since 1970s they have adopted Five Year Plans and implemented different types of reforms. In the 1980s and 1990s they suffered from a large budget deficit. Nevertheless, it took economic reforms seriously by the end of the 6<sup>th</sup> and 7<sup>th</sup> Development Plans in the period 1995-2004.

The demand for public services has been increasing owing to the rapidly expanding cities and growing population. Privatisation was one of the economic reforms implemented recently, commencing in 1997. This chapter describes the role of the public sector in Saudi Arabia, and gives a short history of its stages of development. It discusses the size of the public sector, its enterprises and resources, covering the oil and non-oil organisations. It investigates the justification for establishing the PEs to lay the ground for assessing whether they have succeeded in achieving their objectives, and their contribution to the problems of the economy.

It studies the Government's economic reform programme, agencies and laws promoting the reform programme and the problems with the PEs. Incentives to implement the reform are also covered in this chapter. It presents managers' views on the public sector, its objectives and whether it has succeeded in attaining them. The chapter concludes with the researcher's recommendation and conclusions.

### **4.2 Short history of development of the public sector and its enterprises**

#### **4.2.1 Background**

The public sector in Saudi Arabia is meant to include only agencies which are majority-owned directly by the government. At the end of the 1960s, they faced mismanagement and failure to handle various tasks and responsibilities. At the beginning of the 1970s, they tried to face these problems by announcing the consecutive five-year plans, and adopted these plans in 1970. The major objective of the Government is developing and stabilizing the economy and increasing its



strength. They started establishing the PEs; the main objective of introducing them was developing the national economy and diversifying their resources.

The Government established many enterprises in different sectors (e.g. industrial, financial, etc.), allowing the public sector to become the major economic power, while at the same time limiting private sector influence. PEs handled most of Saudi's commercial activities under the direction of various ministries, and they succeeded in achieving some of their objectives, especially at the beginning. The public sector enabled the government to develop many industries and employ more workers. It also helped steer Saudi Arabia safely through an era which saw much conflict in the region and instability in the oil market.

They established different organizations to liberalize the economy, change the foreign investment law and reduce the customs tax, etc. Although they implemented these changes, it did not make much difference: the Government was still dependent on the oil production and the fluctuation in oil prices. The recent and major decision taken by the Government to liberalize their economy in 1997 was Resolution Number 60, which related to the implementation of the privatisation strategy and allowed them to transfer partially or fully, the public services or projects to local or foreign investors.

#### ***4.2.2 The Public sector and the public enterprises development stages***

The public sector has undergone major development over the past eighty years, and the Government has grown from being very limited in the early 1940s into a huge force. It has been growing fast because of the high income from the oil. During the 1970s many public enterprises were established. Their responsibilities, tasks and number of employees were increased. All these happened as a normal result of developing the economic, political and social life in the country. A study by Al-Mulhim (2000) divided the development and the reforms of the country into four stages as follows:

##### **☒ First: Providing the Necessary Services — 1930-1944**

The Government's role had been to provide the necessary services to the citizens; it had limited resources and tried to prioritise in providing the basic services such as security, education, health, etc. There were no commercial and industrial activities in the public or in the private sector. After they discovered the oil in

1938, they started production and began exporting in commercial quantities. After World War II, the Government entered a new phase, due to the fact that it owned the biggest standby oil reserves in the world. Rapid development took place, with major changes in the framework of the administration, and the level of employment increased.

### **☒ Two: the Expansion and Failure Stage — 1945-1960**

They drew up their own policies and established relations with other countries; much administrative work was added that could not be handled. There was a failure to handle tasks and responsibilities; there was a lack of administrative staff that could run the Government effectively. There was mismanagement in different fields, and there were no financial policies and monitoring systems to control the Government budget.

They suffered from a big budget deficit in 1956-1957. They consulted United Nations (UN), the International Monetary Fund (IMF), and the International Bank for Construction and Building. The IMF recommended the follows points to improve the financial system: reform the financial system and the financial regulations (Saudi Arabian Monetary Agency (SAMA)); establish a yearly budget to be approved by the King; find an effective system to monitor the financial system and; establish economic planning to search for any other sources of income instead of being dependent on the oil.

### **☒ Stage Three: Formation of the Supreme Reform Council — 1960-1969**

They reformed the administrative agencies to be more effective and trained the government employees. In 1961 they established a Supreme Planning Council, and the United Nations advised them to simplify procedures, in 1963 they established the Supreme Reform Council headed by the King, and in 1991 the number of Council members was increased. Al-Shqawi (2002) mentioned in 1962 the Government asked the Ford Establishment to study the economic and financial situation:

They started by surveying different government agencies and concluded their study by establishing a High Authority to handle the Economic and Administrative Reform which would help these agencies in handling their tasks and establishing some government agencies and enterprises. Finally in



1963, they gave these reforms full consideration in order to provide the citizens with a better quality of life through a strong economy.

### **☒ Stage of Liberalization and Diversification of the Economy — 1970-1999**

With the beginning of the economic expansion during the 1970s, the Government tried to face these problems by attracting the investors, and adopting a new policy of liberalizing the economy. The objective of the new policy was to decrease the role of the public sector by encouraging the private sector and increasing its role. It was thought that all the problems in the government would disappear, especially with the reform dealing with the economy and the financial sector and planning procedures.

These policies aimed to develop the regulations and attract investors. In the process of liberalizing the country's economy, they established these agencies: The Saudi Industrial Development Fund (SIDF); The Saudi Credit Bank (SCB); The Real Estate Development Fund (REDF); The Saudi Arabian Agriculture Bank (SAAB); The Public Investment Fund (PIF). The purpose of establishing these agencies was to support the citizens and the local investors with soft loans for small, medium and large projects. The government spent \$1,270 million on different basic and infrastructure projects, and adopted a new policy of liberalization and diversification of the economy.

The public sector led to a liberalization strategy, through developing, encouraging and expanding the role of the private sector in different economic activities, and attracting more investment from local and foreign investors. The Government established different public enterprises; for example, Saudi Basic Industries Corporation (SABIC) — created in 1976 as a share-holding company with capital of \$2.66 billion — Airlines, Electricity Company, etc. Their policy aimed to liberalize and develop the public sector activities, at the same time attracting the private sector in different industries, services, etc.

One of the major steps for liberalization and diversification occurred in 1984 when they established one of the biggest agencies in the public sector — the Royal Commission in Jubail City (East Side) and Yanbu City (West Side) — to support the private sector in the petrochemical industry; the objective of

establishing this authority was to plan, design, construct and operate the two largest industrial cities in the Middle East.

These changes were helpful in developing and expanding the investment, but most of the activities were still dominated by the government. At the same time the economy continued to be dominated by crude oil. The economy was facing a public deficit in the budget with Government expenditure higher than revenue. This period concluded with a new decision to increase liberalization of the economy. In 1999, STC took over from Saudi Telecom, which was operated by the Ministry of Posts, Telephones, and Telegraph.

### 4.3 Size of the public sector and the public enterprises

Saudi Arabia's infrastructure had grown and expanded into a huge public sector. It is composed of three types of entities as follows:

- First, the central government, consisting of more than twenty ministries, including the Saudi Arabian Monetary Agency and the Council of Ministers. All of these agencies receive Government budget allocations as Table 4.1.
- Second, entities and departments with ministerial ranking, six Royal Bureaus and the Royal Commission for Jubail and Yanbu were included as shown in Table 4.2. All of these agencies received Government budget allocations.

Table 4:1 Central Government List. Source: Trivedi (2002)

No	Name of Ministry	No	Name of Ministry	No	Name of Ministry
1	Defence	9	Agriculture	17	Education
2	Interior	10	Water and Electricity	18	Higher Education
3	Foreign	11	Health	19	Justice
4	Labour	12	Information	20	Social Affairs
5	Post, Telecom and Telegraph	13	Petroleum and Mineral	21	Commerce and Industry
6	Transportation	14	Planning and Economy	22	Council of Ministers
7	Islamic Affairs	15	Municipalities	23	Saudi Arabia Monetary Agency
8	Finance	16	General Civil Service		



- Third, public sector enterprises: these differ from the traditional government departments. They have a commercial orientation and raise the bulk of their revenue through selling different products and services Table 4.3.

Table 4:2 Entities and Departments with Ministerial Ranking. Source: Trivedi (2002)

No	Entity Name	No	Entity Name	No	Entity Name
1	Supreme Economic Council	5	Royal Commission for Jubail and Yanbu	9	Disciplinary and Investigation Authority
2	Royal Family Council	6	Religious Supervision at Holy Mosques	10	General Department Of Youth Welfare.
3	Consultative Council (Majlis Al-Shura)	7	General Investment Authority	11	Supreme Council For Petroleum and Mineral Affairs
4	13 Public Universities	8	General Tourism Authority		

Table 4:3 List of the Public Enterprises. Source: Trivedi (2002)

No	Industry Sector	No	Financial Sector	No	Services Sector
1	Aramco	1	Commercial Banks	1	Saudi Electricity Company
		1.1	Riyadh Bank	2	Saudia Airlines
2	Sabic-19 Projects.	1.2	National Commercial Bank	3	Saline Water Conversion Commission
		1.3	Saudi American Bank	4	Airports Authority
		1.4	Saudi Investment Bank	5	Saudi Ports Authority
		2	Specialized Financial Institution	6	Grain Silos and Flour Mills Authority
		2.1	Saudi Credit Bank	7	Saudi Railway Authority
		2.2	Real Estate Development Fund	8	Water and Drain Authority
		2.3	Saudi Agricultural Bank	9	Saudi Telecom Company
		2.4	Saudi Industrial Development Fund	10	Ma'aden
				11	Saudi Post Authority
		2.5	Public Investment Fund	12	Hotels

These tables indicated the public sector suffered from the following factors:

- It has a huge number of organizations.
- This makes the sector the major economic power in the country.

- Huge expenses are required to keep these organizations working efficiently.
- These organizations employ a huge number of employees.
- This expansion prevents the Government from preparing efficient planning.
- Keeping all these organizations under their control led to a shortage of resources and lack of utilization of the resources.
- This led their budget to depend on oil as a main revenue source.

All the above factors lead the public sector to suffer from a huge deficit and a large debt, which leads the public services reaching only certain groups of people, e.g. those with power or influence and the wealthier sections of society. This led to the following findings:

- The public sector could be exposed to low performance and efficiency.
- Most of these sectors presented low quality and high prices.

This explains why they had taken major action regarding the following:

- Reforming and restructuring most of the public authorities.
- Liberalizing different economic activities in the economy.
- Taking certain sectors to privatisation.

#### **4.4 Saudi Government budget resources income**

This section will allow for the researcher to investigate the country's resources to efficiently run these organizations and pay their expenses. Al-Otaibi (1999) recognized the Saudi economy's problem: "It is characterized by limited industrial output and dependence primarily on oil products. Oil became the key product in terms of earning power during the early 1970s,". Saudi Arabia depended heavily on oil, as mentioned in the WFB (2000) paper: "They have the largest reserves of the oil in the world: 26% of the total amount, and its oil sector accounts for roughly 75% of budget revenues, 40% of GDP, and 90% of export earning,". The Government budget income comes from two main resources as follows:

##### **4.4.1 The oil sector income**

The history of the oil industry in Saudi Arabia goes back to 1933 when they discovered oil; the Government decided to establish the Saudi Oil Company (Saudi-Aramco), which they fully owned and operated. Since the 1970s, Aramco has operated most of the Saudi oilfields and produces more than 90% of oil and



gas. In order to execute general policies on the oil, gas and minerals sector, they established the Ministry of Petroleum and Mineral Resources in 1960. Then in December 1962, they established the General Petroleum and Minerals Organization (Petromin) to operate and develop crude oil storage as well as domestic distribution and development of exports. Cordesman (2002) mentions one of reform in the oil sector:

In July 1993, they decided to merge Petromin under Aramco in one company; this merger was aimed at creating efficiency as well as increasing the level of integration between the two companies.

Al-Ibrahim (2004) described problem of the Gulf Countries thus:

After 25 years, the Gulf Countries still depend on the oil in their GDP and still keep a high percentage; it is the main source of supply for most of the economic and social activities, e.g. the shares of the oil sector in Saudi Arabia is 33.89%. The economy continues to be dominated by crude oil, a sector that has been volatile in the short term and essentially flat over time as shown in Table 4.4.

Cordesman (2002) shows the Government revenues from oil for the last the three decades: “The oil revenue rose from \$19.3 billion in 1972, to \$223.2 billion in 1980, dropping to \$31.2 billion in 1986. In 1998 the revenue was \$29.4 billion, rising to \$38.3 billion by 1999 and doubling by 2001 to \$58.2 billion,”. These studies indicate that the situation in the Saudi public sector is difficult because more than of 30% of their budget depends on oil as a major income resource. This means that the country’s development is related to the oil prices and the production levels.

Table:4.4 Oil and minerals sector share in GDP in Gulf Countries1996-2001.  
Source: Al-Ibrahim(2004).

Country	% Oil in GDP	Country	% Oil in GDP
UAE	28.68	Oman	34.71
Bahrain	16.98	Qatar	46.50
Saudi Arabia	33.89	Kuwait	28.41

The public sector did not utilize the oil income in liberalizing various economic activities; this allows for the Government to build long-term participation with the local and international private sector, which could impact positively on the Saudi economy and the citizens in both the short and long term.

#### 4.4.2 *The non-oil sector income*

This sector is comprised of various types of entity as follows: First, the central government including more than twenty ministries as shown in Table 4.1; Second, other entities and departments with ministerial ranking as shown in Table 4.2; Third, the public enterprises are grouped into three fields: industrial, financial and services as shown in Table 4.3, and; Fourth, the private sector.

The Saudi Government concentrated on developing the non oil sector, as the Sixth Development Plan (1995-2000) emphasised:

It sought to increase the Saudi GDP from \$101.55 billion in 1995 to \$122.3 billion in 2000, while maintaining an average annual growth rate of 3.8%. Additionally, it called for the non-oil sector (public and private) to grow from \$62.91 billion in 1995 to \$76.03 billion in 2000, while maintaining an average annual growth rate of 3.9%. The private sector portion of the non-oil sector was planned to grow from \$45.31 billion to \$55.81 billion, with an average annual growth rate of 4.3% [107].

Table 4.5 indicated development and the steady improvement in the private sector's economic efficiency (in investment, production and institutional terms). The number of operating factories increased from 199 in 1970 to 3,123 in 1999, while the number of companies increased from 923 in 1970 to 9,302 in 1999. The share of the private sector reached 50.6% of GDP and 74% of non-oil GDP, and the total employment increased from about 1.83 million in 1970 to 6.16 million by the end of the Sixth Development Plan 1999. Currently, private sector employment accounts for 85.9% of total employment.

Table 4:5 Main Indicators of the Private Sector Role in the Economy, 1970-1999. Source: Ministry of Planning and Economy (2000).

Indicator	1970	1999
Number of Operating Factories	199	3123
Number of Private Sector Companies	923	9302
Contribution to GDP	33.3%	50.6%
Contribution to Non-Oil GDP	67.9%	74%
Contribution to Fixed Gross Capital Formation	47.3%	67.3%
Employment to the Private Sector (million)	1.83	6.16
Private Sector Employment as % of Total Employment	-	85

Table 4.6 is a comparison between 1985-1995 for the income from both oil and non-oil. In 1985 the oil sector income reached 31.3% and non-oil 68.7%; in 1995



the oil percentage increased to 36.1% and the non-oil dropped to 63.9%. The best indicator of Saudi economic growth is the increase in the Gross Domestic Product (GDP), from \$20 billion in 1970 to \$211.20 billion in 2003.

These tables indicated the Saudi Government still depended heavily on the oil sector, which contributes more than 36% to the Gross Domestic Product. This indicated that they should increase the diversity of the resources and liberalization of its economic activities, which will speed up implementation of privatisation, especially as the country has a strong private sector.

Table 4:6 Indicator of the Saudi Income from both Oil and Non-Oil. Source: Ministry of Planning and Economy (2000).

Sector	1985	% of GDP 1985	1995	% of GDP 1995
GDP	310	100	462	100
Oil	97	31.3	167	36.1
Non-Oil	213	68.7	295	63.9
1. Government	82	26.4	123	26.6
2. Private	131	42.3	172	37.2

This could be realised through applying various factors to help them in reducing their dependency on the oil sector and taking some Government economic activities to the private sector. This needs a lot of effort from various organizations to reduce the size of public sector economic activities, and requires studying and planning in an efficient way.

#### **4.5 Objectives of establishing the public sector enterprises**

The public enterprises are Government organizations but differ from the other traditional governmental departments in that they have a commercial and market orientation: this allows them to be more profitable and raise the bulk of their revenues through providing or selling off their services or products in the local, regional or international markets. This allows for the Government to reduce the financial deficit in various enterprises and services.

These services or products could be provided in different fields or sectors, such as industry, agriculture, finance, infrastructure or services. Along with the emergence of governments came the concept of public services, expenditure

resources and hence assets. This allows for the government to establish various economic activities such as ports, roads, schools, parks, airports, hospitals, infrastructure in different services (e.g. water, electricity) etc. These services started to be constructed and appeared in various parts of the world. These Governments established organizations and to run these organizations they hired employees in various fields.

That indicated the Government's objectives in establishing these enterprises were developing and improving the economy and increasing its efficiency, at the same time providing different services, such as telecommunication, electricity, post, etc. to the citizens. Also the private sector was very weak which creates a gap; so this allows for each country to cover shortage of the private sector. These services expanded and that needs financial resources to finance public services and paying the expenses to the employees and support them technically and operationally to run them in efficient way. As mentioned previously, the Government invited different economical organizations to advise them on how to develop the economy. These are some of the objectives for establishing these enterprises:

- Divesting the economy from the oil sector.
- Changing the economic resources.
- Raising funds from other government services or products.
- Providing different services for the citizens.

#### **4.6 Performance of the public sector and its enterprises**

This section reviews in depth several studies on the performance of the public sector and its enterprises; this allows the researcher to understand the reasons for failure and success in the public sector and the Government's aims in transferring these services or sectors to the private sector. Raphaeli (2002) explained the development and some problems of the Saudi economy;

GDP has grown from \$110.6 billion in 1982 to \$173 billion in 2000, an increase of 56.3%. At the same time, the population has grown from 14.1 million to 20.7 million in 2000, or an increase of 46.8%. However, if an inflation rate of 2% compounded over 18 years (or 42.8%) is factored into the GDP, one concludes that the Saudi GDP has declined by as much as 33.3%, or by one third, in real terms over this period of time. Two other indicators are equally instructive: the per capita oil export revenues have declined from a record \$3,200 in 1980 to \$2,563 in 2001 (inflation adjusted dollars). In 1989 the GDP per capita was 10,330; in 1999 it was \$6900, in nominal value.



Trivedi (2002) described the losses in the postal sector:

The financial performance of the post sector in Saudi Arabia in 1997 lost \$61.6 million by spending \$168.267 million against revenue of \$106.67; in fact, the expenditure on salaries alone — \$144.8 million — was greater than the total revenue. In terms of quality of service, the most recent information available on the quality of the domestic mail service as measured by delivery time is shown in Table 4.7. It shows that the Saudi Post has made good progress over the years, but it is far below the international standards. The goal was to achieve D+1 delivery, yet 90% of the mail takes longer, and in fact 50% of the mail takes longer than D+3.

Al-Hussein (2002) estimated the loss of desalinated water in Saudi Arabia through leakage at more than 2 million cubic metres daily, at a direct cost of \$3 million, including the cost of desalination, transportation and distribution. There is also indirect cost caused by water leakage under highways and buildings. Al-Shamri, (2004) stated “The Director of the Saudia Airlines, estimated the profit by the end 2004 to be approximately \$73.3 million, where previously he estimated \$80 million, a reduction of \$6.6 million. Also he added that, in spite of its financial problems, Saudia services standards are satisfactory.

Table 4:7 Improvements in Saudi Mail Delivery. Source: Trivedi (2002).

Quality Delivery Time	1991 %	1996 %
D+1	1.8	10.2
D+2	5.7	14.6
D+3	16.7	15.6
D+4	14.5	16.9
More	55.3	37.3

These two examples indicated the performance of two of enterprises: firstly, the water desalination and secondly Saudi Airlines. Saudi Airlines has been established since late 1940s and receives an annual Government subsidy, but is still making losses. In addition, they have a monopoly on the local market and there is no competition. Trivedi (2002) explained the performance of Saudia Airlines:

It failed to make a profit in any year since 1984: its finances are precarious, it is technically bankrupt and it has no further borrowing capacity. The balance sheet shows a large negative net worth of \$987 million and current liabilities exceed current assets by \$2.11 billion. Saudia utilises much less of its capacity to carry weight, passengers, and cargo than benchmark airlines; its aircraft

utilisation is well below industry standards. Similarly, available data suggest that Saudia is overstaffed by 20%.

The Seventh Development Plan (2000-2004) mentioned that the transport sector targeted different sectors for privatisation: one of them was Saudia Airlines [112]. The researcher saw this underperformance as the main reason for the Saudi Government targeting most of these enterprises and services for privatisation. At the end of the seventh plan period, Saudia Airlines is still owned and managed by the Government.

These papers presented some evidence on the performance of different public enterprises, e.g. the Post Authority, Water Authority and Saudi Airlines. These services suffered from different major problems in financial, technical, management and operational areas. They have been established for a long time and some of them have been in existence for more than thirty years. Richard (2002) emphasised the failure of the public sector according to this report:

To draw largely on the UNIDO Industrial Development Report 2002/2003 and on UNIDO Integrated Programme for Saudi Arabia, it can be seen that it is one of the many countries that lost more than 10 places in their respective rankings between 1985 and 1998. It is clear that in the case of Saudi Arabia, production structures do not match export structures, reflecting the shortage of really competitive industries at the international level.

Poor performance is one of the problems in the public sector, as emphasised by several authors such as Trivedi (2002): “the same pattern of poor performance is repeated in the agencies responsible for water, electricity, railways, and telecommunication. If there is over-employment and less than full-capacity utilisation in sectors where it is easy to measure these factors, it is reasonable to assume that the same is true in various other government departments and institutions,”. Richard (2002) also listed some of the problems in the public sector:

Its industrial performance is the result of its weak capabilities. For instance, in overall terms, skill formation in Saudi Arabia — particularly in technical subjects — has not been up to international standards. It has lost 6 places in the area of technical enrolment ranking, and 3 places in the Harbinson-Myers Index of skills. Technology effort by productive enterprises remains nil, which mirrors the lack of innovative activity being carried out in the country. Foreign investment has also dropped dramatically, particularly in manufacturing industries. One of the major concerns for Saudi Arabia today is that of diversification and upgrading.



To achieve further productivity improvements in the transport sector during the Seventh Plan period the Ministry of Economy stated that: "...additional regulatory measures will be adopted to facilitate the shift towards private sector operation and expansion of the transport sector, while ensuring an appropriate balance between commercial gains and social benefits." [114]. The Seventh Plan has now ended, and up to now no regulatory measures have been established in this period. All these problems in the public sector and its enterprises are forcing the Government to implement different reforms in the economical, financial and administrative fields. These efforts were implemented by them to develop and improve the economy's capability, but the procedures are still moving slowly.

The Government should consider those departments with interrelated authorities: for example, the Ministries of Municipalities and Commerce are interrelated in the area of licensing shops: new businesses must obtain approval from these two authorities. Water is another example of interrelation between different authorities and agencies, such as Municipalities, Agriculture, Water Authority, Saline Water Conversion Corporation (SWCC) and the Ministry of Electricity and Water. They could assign water responsibilities to one of these authorities, otherwise the sector will continue to be mismanaged between them and their responsibilities will not be coordinated and managed properly.

Trivedi (2002) divided the poor efficiency in Saudi Arabia into different issues which can be summarized as follows: information systems at all levels in the public sector are unsatisfactory. At the macro level, both the quality and quantity of basic data are woefully inadequate and far behind the international best practice in this area. This lack of data has affected not only the effectiveness of public policy but also the development of the private sector. The situation at the sectoral level is not better; being a weak evaluation system it illustrates many of the problems of the evaluation systems in the public sector. The major flaws may be summarized as follows: focus on ex-post evaluation; inappropriate evaluation criteria; absence of prioritization; no basis to evaluate deviations from target; evaluation diluted by explanation; quantity versus quality of evaluation; and lack of focus on qualitative aspects of performance.

Saudi Arabia faces a significant development challenge as described by Mueen et al (2002).

It needs to sustain growth in real incomes per capita, provide employment to a rapidly growing population and ensure equitable growth to its population at large. The country does not lack assets: it is of strategic geopolitical importance because of its location and its special role in the Muslim world; it has an increasingly educated population, and it holds a commanding position in the world oil markets, derived from its possession of 25% of the world's crude oil reserves.

Trivedi (2002) added some points related to performance of the public sector in Saudi Arabia, such as inadequate incentive systems (the absence of incentives for cost effectiveness is not simply a result of an old-fashioned personnel system in the Saudi Government: the financial management system within the government has been equally responsible); fractured institutional arrangements for public policy and management. Many, if not all, of the problems mentioned can be viewed as a consequence of the fundamental inadequacy of the current institutional arrangement of the public sector: the focus is wrong, with the management of the public sector being input-oriented rather than output or results-oriented. The effort is focused on allocating budgets and achieving expenditure targets.

The need for diversifying was emphasised by Khemani (2002):

The Saudi economy has been widely recognized by both the general business community and the public sector officials in the country. Applying some of the instruments and strategies for diversification, such as promoting business-government dialogue/collaboration, business environment and competitive audits, identifying and encouraging industrial clusters and attracting foreign investment and promoting knowledge based-information economy may help.

Most of these papers recommended that the Government should maintain its progress in reforming different institutions and diversifying. This improves the performance and efficiency of various public enterprises and alleviates the financial and technical problems on the Government budget. Liberalizing most of the enterprises helps in attracting more investment to the country and more employees and bringing more advance technology for each enterprise.

The size of the civil service cadre and its effect is mentioned by Diwan (2002):

It increased rapidly from 1983 to 1999, with the number of Saudis currently employed in the civil service exceeding 750,000, up from about 300,000 in 1983. This was achieved partly by replacing foreign workers by Saudis, and partly through an expansion of the public sector. Over time, the Government wage bill swelled, as shown in Table 4.8. The wages alone accounted in



1994 for 18%, 53% and 71% of, respectively, the GDP, the government budget and oil revenues. By 1999, these numbers jumped to respectively, 23%, 60% and 92%. At the same time, public investment was dropping, from 18.8% of GDP in 1994 to only 13.6% in 1999.

Table 4:8 Government wage bill as a percentage of government spending and oil revenue; Source: Diwan (2002).

Year	Government wage bill as a % in:			Investment Spending as % of Government Expenditure
	GDP	Government Budget	Oil Revenue	
1994	18	53	71	18.8
1995	16	51	58	21.0
1996	16	51	45	22.2
1997	24	59	59	14.9
1999	23	60	92	13.6

The problems with institutional design may be classified into two categories: lack of a focal point for coordination and monitoring, and the existence of multiple principals with multiple objectives [102]. Poor performance is not limited to the public enterprises but the public sector in general, suffering from the same problems or worse. Public enterprises are affected by the performance and productivity of the public sector which lead to all these problems. It has low productivity and mismanagement in different fields. All of these studies indicated there was poor management, overstaffing, low spending on maintenance and expansion, resulted in low quality and high costs, which in turn results in further problems, e.g. fiscal deficit, slowing of growth, decrease in real job opportunities, and the creation of large deficits to subsidise the public enterprises.

These issues will give rise to several problems, as confirmed by Mueen et al. (2002):

It will result in an uneconomic way of providing services, and lead to negative effect on the whole economy of the country. Diversification of the economy away from hydrocarbons remains limited, notwithstanding Saudi Arabia's concern with the issue for some time. Finally, four stylized trends appear to characterize the evolution of the financial markets and their ability to respond to the diverse demands, growth and development put on them. These trends are globalization, modernization, disintermediation and institutionalization.

In conclusion, all these reasons will lead to the following problems:

1. Increase in inflation and living cost which will harm poor people.
2. Increase in the Government Budget deficit which will lead the Government to reduce their support for most of the enterprises.
3. The major impact will be on new graduates and unemployed people because this limits the Government capability to create more jobs.
4. These services will reach a small portion of the citizens, most of them rich who have Government positions or good relations with public enterprise decision-makers, or will only cover the big cities.

All these points indicated that the Government took the decision to privatize most of the public sector enterprises to reduce the financial, technical and operational problems on the Government.

#### **4.7 Problems of the public enterprises in Saudi Arabia**

Reviewing several papers about the performance of the public sector in the above section allows for the researcher to summarize some of the problems in the public sector in this section as follows:

- **Low productivity**

Most of the studies and tables in this chapter have indicated that productivity of the public sector is very low, and one of the main reasons is commercial methods were not applied in their running. There is a recognised difficulty in comparing the public and private sectors, because 'like to like' is necessary in the type of activity or business for an accurate comparison, but all the evidence shows that the public sector and its enterprises have very low productivity and higher costs than the private sector. It will be difficult for the public sector to achieve what the private has in terms of productivity, cost cutting, recruiting, etc.

- **Low efficiency**

The public sector has expanded to a huge size, and is supported by the income from the oil sector, which tends to use higher levels of manpower. All these lead them to utilize the facilities, capital and equipment in less efficient ways than the private sector.

- **High employee level**

Normally most of the citizens in different developing countries keep the pressure on their governments to employ them, and most of these countries try to keep political and economical conditions stable by attracting the citizens to different



types of jobs. All these factors lead to overstaffing in these sectors, which swells the government wages bill. This is one of the factors which lead them to attract non-qualified staff, leading to mismanagement in different services.

- **Limited diversity from the oil sector**

More than a third of the Government budget comes from the oil sector due to limited diversification of the economy and limited procedures in directing the liberalization of the economy.

- **The sector monopolized by the Government**

Most of the services (water, electricity, sewage, airlines, etc.) are owned by the Government, with only one company in each field, so the consumers cannot go elsewhere if they are dissatisfied. The Government applied different solutions to liberalize their economic activities but movement in this direction was very limited and slow, and most of these services are still dominated by the public sector.

- **Shortage of financial information**

The shortage of the financial information such as profits and losses created a barrier for attracting foreigner investors to several sectors. There is a shortage of level the information needed to evaluate the performance and quality of the public sector. Both the quality and quantity of basic data is inadequate and far behind the international best practice in this area. This lack of data has affected not only the effectiveness of public policy but also development of the different sectors in the country. Shortage of the information effected on participation of the local private sector and keeps them away from these sectors.

- **Limited financial resources**

The shortage of financial resources affected different enterprises because they depended on the Government support. Therefore their budget and projects depend on how much the Government pays, and that has an effect on their future plans in different regions of the country. This also impacted on some of the smaller cities, because these enterprises were spending their budget on the larger (and more powerful) cities.

- **Low innovation efforts**

The public sector is lacking in innovation, and their efforts in this field were very limited. This factor is counted as one of the most important factors to be

implemented in the private sector. Most private sector projects begin with some innovation and then developing it, allowing them to use new technology and methods. Most of the developing countries have low innovation because most of their projects are centralized, allowing public employees to control most of the activities employing old or traditional methods.

- **Lack of competition**

Competition is one of the factors affecting the implementation of privatisation and regulation. This method allows for different providers to compete with each other. Each provider will develop and improve the quality of their services. Most of the services and sectors suffered from monopoly by the public sector employees, and this is the main reason for these services lacking competition.

In addition there were other problems affecting the public sector as mentioned in above literature review, e.g. poor information systems, wrong focus, weak evaluation systems, slowness in decision making, etc. All of these factors, whether separate or combined with others, make most of the public enterprises non-profitable, increase losses and make the services unaffordable for people on low incomes. All these problems affected the public sector and its enterprises in Saudi Arabia.

#### **4.8 Did the public enterprises achieve their objectives?**

Most of the developing countries established different PEs in different sectors for different reasons, e.g. diversity in the economic recourses, liberalizing different economic activities, unavailability of the private sector to handle these services, etc. These services did not run according to commercial methods, and this affected their business and led to other problems. The main criticism for evaluation of any services, projects or policy is the degree of success in achieving the objectives. In Saudi Arabia, more than three decades of experience show that the public enterprises have achieved very little of its established objectives.

Different studies have shown that the public enterprises failed in achieving divestiture; for example, the Government still depended on the oil sector as one of its major resources. These studies show the public sector and its enterprises failed in performing the divesting of income. Raising funds from different services was also one of the objectives. They failed in achieving any increase in funding



because most of them suffered from budget deficits: all these services are still receiving governmental subsidies, and there were huge losses. In addition, one of the objectives mentioned providing services for the citizens, while there was still a lack of basic services (water, sewage, etc.) in some cities.

Finally, the Government discussed planning and development of the country's economy, and they consulted different international institutions and organizations such as the World Bank, IMF, etc. They implemented different reforms to plan and develop the economy, but still most of their work suffered from random planning and there was no clear vision for the future as all the papers in section 4.6 indicated. All these factors have an effect on different services or projects in the country. In spite of three decades of the public enterprises' performance, most of their objectives have not been achieved as planned. All the economic objectives behind establishing them were not achieved because the Government keeps supporting them, even if they lose money, contributing to continuing annual budget deficit problems, overstaffing, etc.

In conclusion, these problems were caused by various factors: mismanagement of the senior managers in different sectors, poor decisions lacking the vision of the country future needs and interference from the decision-makers in both the public and public enterprises, limited liberalization of the public economic activities, the country depended too heavily on oil, etc.

#### **4.9 The Government economic reform programme**

The programme, in which privatisation later became a major component, started in 1997. It was one of the major objectives to improve the performance of the public enterprises and liberalize and develop the economy. This includes major measures that have been taken by the government to prepare the environment and make it more favourable for the implementation of privatisation in Saudi Arabia.

##### ***4.9.1 Objectives of the economic reform programme***

Since the first reform started in 1957, the Government has been trying to change the economic policies and upgrade the citizens' living standards. There was occasionally some improvement when the oil prices rose, but the economic performance has not succeeded. One of the major indicators shows that there has

been slow and poor economic performance in the public sector, with a continuous deficit every year in the national budget.

The Saudi economy is facing a huge public deficit in the budget, with Government expenditure higher than revenue. Al-Kurdi (2004) stated the objectives of reforming the economy: “The Saudi Government had announced several objectives of the reforms, as follows: diversity in income resources; decreasing the Government’s national budget deficit; improving the living standards and guaranteeing availability of affordable services; creation of jobs,”.

The strong need for reform is supported by Cordesman (2002):

There is a broad consensus within the Saudi ruling elite, technocrats and educators and Saudi businessmen and professionals that the nation needs to diversify its economy, to reduce dependence on the petroleum sector, to solve the problems in managing and financing the budget, and find ways of limiting the Government’s domestic foreign and domestic debt. There is consensus that the Kingdom truly needs to make economic reform work, and it can do so only by strengthening the private sector, finding other sources of investment, and encouraging repatriation of capital.

Table 4.9 below shows the annual revenue, expenditure and deficit for the Government from 1984 to 1997. Since implementing a different reform programme in 1957, the public sector still suffered from poor economic performance that was reflected by various economic indicators, forcing the Government to develop a different reform programme and establishing different organizations to liberalize the economy.

Table 4:9 the annual revenue, expenditure and deficit for the government from 1984 to 1997 (billion \$), Source: Al-Khateeb (2002)

Year	Revenue	Expenditure	Deficit	Year	Revenue	Expenditure	Deficit
1984	55.04	61.39	6.35	1991	41.25	71.04	29.79
1985	45.73	57.71	11.97	1992	43.17	62.00	18.83
1986	35.63	49.07	13.44	1993	44.11	54.80	10.69
1987	20.40	36.67	16.27	1994	37.71	43.68	5.97
1988	27.68	35.97	8.29	1995	34.40	43.68	9.28
1989	22.56	39.87	17.31	1996	39.07	46.37	7.31
1990	30.56	56.11	25.55	1997	47.76	52.83	5.07



One of the major indicators that showed this was essential was the continuous deficit in the Government budget. This deficit reached 25.55% of GNP in 1990, 29.79% in 1991 and in 1992 was 18.83%. The Government justification for these continuing problems was the decline in oil prices, and they started to borrow. Their borrowing policy continued, pushing the total percentage of debt to 116% in 1998; in 1999 it fell to 104%.

Table 4.10 shows the percentage of debt to GDP in Saudi Arabia from 1994 up to 2003. It started with 76% in 1994 then jumped to 116 % in 1998.

Debt could be one of the reasons for the reform; Cordesman (2002) emphasised the size of the debt:

According to SAMBA (Financial Establishment) the Government's domestic debt rose to \$160 billion in 1999. This was 115% of the Saudi Arabia's GDP for 1998, as calculated by SAMBA. Other sources show an increase in domestic borrowing by the Government from commercial banks in 1999 through bond purchases.

Table 4:10 Percentage of debt to GDP billions \$, Source: Samba Financial Group (2003).

Year	GDP	Gov. Debt	Percent	Year	GDP	Gov. Debt	Percent
1994	120.01	91.2	76%	1999	160.96	166.67	104%
1995	127.64	105.87	83%	2000	188.44	164.27	87%
1996	157.053	132.27	84%	2001	186.24	170.67	92%
1997	164.77	143.47	87%	2002	185.33	173.33	94%
1998	145.77	169.07	116%	2003	186.93	177.6	95%

Reform the economy is one of the priorities as confirmed by Al-Kurdi (2004):

Reforms have started to happen in the country and there is a commitment to continue doing so. The area of the economy is the most comprehensive reform sector in Saudi Arabia. These reforms are on three axes, as follows: Issuing of new laws; Upgrading and updating of other laws and; other laws have been rewritten to accommodate the 21<sup>st</sup> century.

All these indicated there is an increase in losses in the public sector and public enterprises, and their inability to cover their current needs is limited. These factors keep them continuously dependent on the Government's support financially, technically, etc. There were not enough reforms and restructuring processes to develop and improve the public sector and its economic activities. These poor

economic performances and other indicators led the government to implement different reform programmes that may help them in transferring to more liberalized economic policies. The next section will review the recent reform programmes implemented, starting from 2000; the other periods have already been reviewed and discussed in Section 4.2.

#### ***4.9.2 The open door policy and the reform stage: 2000-2004***

The researcher calls this period the ‘open door’ policy, because the Government implemented a huge number of reform programmes as mentioned by Al-Tuwaijri (2003): “Additional structural reforms are currently under serious consideration: in the coming months, we are expecting to introduce a new labour law, a new mining code, a new corporate tax law and a new company law,”. Competition could be one of the incentives, as this RESA (2004) report emphasised:

In 2000, the government entered competition with different countries, especially in the Middle East, by implementing the open door policy and attracting more investments. A more comprehensive reform approach was adopted during the Seventh Plan 2000-2004. They implemented a number of political and economic reforms to encourage political participation, promote economic growth, increase foreign investment and expand employment opportunities

The Government could implement the open door policy for several factors as the Deutsch Bank (2002) report emphasised:

Emphasis was placed on the strengthening of the private sector in the development of the infrastructure, but the public sector, being the major economic power and because of its size, remained stable and unchanged. New policies were adopted to support both public and private sectors. In order to counter the potentially adverse effects of explosive demographic growth, high unemployment and declining living standards, the Government has taken measures to liberalize trade, privatizing certain sectors of the economy and attracting foreign investment.

Al-Tuwaijri (2003) discussed other factors:

In the last four years, they have been implementing an ambitious economic reform programme, which aims to diversify the economy and accelerate non-oil growth so as to create employment opportunities for the rapidly growing population. The Government is still in this process; it puts great emphasis on strengthening the role of the private sector, and is committed to creating an environment that is even more attractive for them to invest in and thus increase their participation in the economy.



In conclusion, they announced several objectives to implement the reform programmes; these objectives could be summarized in the following points:

- Reducing the government role in the various economic activities.
- Encouraging participation of the private sector in investment, providing services, giving more opportunity to them and increasing its efficiency.
- Alleviating burdens on the state budget as a result of eliminating subsidies.
- Enhancing competition and attracting foreign investment.
- Developing the non-oil trade according to the needs of the national economy.
- Expanding the scope of the private sector and increasing its commercial activities in national and international markets by and liberalizing the economy..
- Developing and qualifying the Saudi labour force.
- Development of investment opportunities.
- Reforming and changing some of the legislation and laws in the public sector.
- Controlling the balance of payments deficit and reducing the total debt.

Most of these objectives have not been achieved or implemented; the whole process is associated with slow implementation. The next section contains a discussion about the incentives to implementing privatisation.

#### **4.10 Incentives for implementing privatisation**

The Ministry of Finance (1998) described the development of the private sector: “The value added by the private sector increased from \$3.75 billion in 1973 to \$49.33 billion in 1997. Moreover, non-oil exports have expanded substantially from \$26 million to \$7.5 billion. As a result, Saudi Arabia, with a GDP of more than \$140 billion, is the largest economy in the region,”. This expansion could be one of the incentives for further privatisation. Table 4.11 is another indicator of the private sector’s role in the national economy.

This table indicates how the private sector developed and increased its contribution to the Government in value added, GDP, employment, etc. An example of the private sector improvement is as follows:

- The value added in 1999 was 316.4 SR (\$84.37) billion, while in 2004 this increased to 390 SR (\$104) billion, an increase of 73.8 SR (\$19.68) billion 14.78 SR (\$3.94) billion annually.
- Its contribution to the GDP in 1999 was 52.4% while in 2004 it was 54.6%: this means that it grew by 2.2%, with an average estimate of 0.44% every year.

▪ Private sector employment in 2004 reached more than seven million, while in 1999 it was less than that by approximately one million: a gain reached by attracting 182,600 employees, both national and foreign, every year. Also it has a role in attracting Saudi employees; in 1999 there were 1,8 million, while in 2004 there were 2,5 million, an increase of more than seven hundred thousand, or 142,400 employees annually). This figure was 0.9% higher than the Government had planned.

Table 4:11 Major indicators of the private sector role in the national economy 1999-2004 1\$= 3.75 SR. Source: Ministry of Economy and Planning (2006)

No	Indicator	1999	2004	Annual Growth Rate in the 7 <sup>th</sup> Plan %	
				Planned	Actual
1.	Value Added (SR billion)	316.4	390.2	5.04	4.3
2.	Contribution to GDP (%)	52.4	54.6	55.4	-
3.	Total Private Investments (SR billion)	98.3	110.3	8.34	2.3
4.	Number of Companies (000)	190,6	194,7	-	0.4
5.	Number of Operating Factories	3,163	3,652	-	2.9
6.	Private Sector Employment (000)	6,145	7,076	1.0	2.9
7.	Total Number of the Saudi Employed by the private sector (000)	1,119	1,451	5.8	6.7
8.	Share of the Saudi Employment of Total Private Sector Employment	29.6%	35.5%	-	-
9.	Total share of Private Sector Employment	85.0	84.5	-	-

Also, the Ministry of Economy (2006) emphasised the development of the sector:

It has grown at a real average annual rate amounting to 4.3 % in the Seventh Plan. During the same period, private investment grew at an average annual rate of 2.3% compared with the planned target of 8.3%. This gap between the actual and planned rates is attributed to the recent conflicts and tensions in the region, which adversely affected the investment climate and led to a delay in the implementation of some of the major private investments foreseen by the plan in such sectors as petrochemicals and mining.

Table 4.12 compares public and private sector performance in the Seventh Plan period, and reflects the improvement and development of the private sector in contributing to the GDP compared with the public sector and oil and gas sector. This table shows that in 2000 the private sector's contribution to the GDP was 51.9% while that of the public sector, including the oil and gas sector, was 48.1%, indicating that the private sector contribution was higher by 3.9%. By 2004, the



private sector's contribution was 54.0%, 8% higher than the other sector's 46% contribution.

From the above tables, the researcher summarized the following points:

- The private sector is growing faster and better than the public sector.
- They are utilizing and managing the resources in a more efficient way.
- According to these tables the private sector had good indicators in terms of its production and contribution to the country and the Government.
- The Government's diversity from the oil and gas sector was very limited.

These figures could be one of the incentives for the Saudi Government to transfer the public enterprises from the Government's hands to private hands.

Table 4:12 Contribution of the sectors to the GDP in the Seventh Plan (2000-2004),

Source: Ministry of Planning and National Economy (1) (2004).

Year	Oil and Gas	Non-Oil Government	Non-Oil Private Sector
2000	29.2	18.9	51.9
2001	27.6	19.1	53.3
2002	25.2	19.5	55.3
2003	27.4	18.8	53.8
2004	27.3	18.7	54.0

These points led the Government to take some action, mentioned in the different objectives in the Eighth Plan (2004-2009) as follows: Simplifying of the litigation and dispute settlement processes; Developing and updating the laws on competition, anti-trust and dumping; Developing a modern bankruptcy law that encourages initiative, stimulates venture capital and safeguards investors' rights; Reducing instances of double taxation, and concluding agreements with more countries; Developing business and investment climate databases and making this information available; Automating investment and other business-related procedures, within the framework of e-Government; Preparing a time schedule for implementation of the privatisation strategy.

Thus all these objectives could be incentives for implementation of different policies and strategies, especially the privatisation strategy. The next section contains a discussion of the reform and privatisation.

#### **4.11 Reform and privatisation**

The above sections indicated the major parts of the Saudi economic problem are directly related to the poor performance and mismanagement of both the public sector and the public enterprises. Some of the above studies mentioned that part of the government budget deficit was a result of the public enterprises, owing to the losses from different services and their inability to cover their current duties and investment needs.

In addition, increasing their dependence on the Government budget for technical and financial support made it essential for applying reforms to start by public sector structural adjustment, at the same time adopting a comprehensive approach to the economic reform of the public sector and public enterprises. Thus privatisation is presented as an attractive solution or an alternative pursued by different countries with the same problems.

There are requirements for implementation of privatisation and reform, as confirmed by Al-Tuwaijri (2003):

The Saudi Government is adopting the open door policy during this time; there are structural changes, including updating laws and introducing new ones. In the past few months alone, the Council of Ministers issued an Intellectual Properties Right, the Capital Market and the Cooperative Insurance Companies Laws, opened up Saudi Arabian domestic airspace for national aviation companies and put into effect transparent procedures for the announcement of Government contracts.

Sager (2006) pointed out the importance of the reforms for the country: "No doubt reform constitutes a master solution to the challenges and problems that face the Kingdom,". Privatisation has been one of the first priorities for the Saudi Government. It has started implementing the reform programme to liberalize the economy and develop the market, and it is planning to upgrade and develop the economy, by encouraging local and foreign private sector investment, reducing the public sector losses and supporting the public enterprises to be more profitable. It has decided to take a forward step into privatisation as an economic reform programme.

Since implementing the programme the Government is aware that this change could affect the whole system, as it owns most of these entities, but they will still proceed with the plan. In addition, this research gives a short account of



government efforts to reform the public sector, but most of these efforts failed to reduce the budget deficit.

In the Seventh Plan period several significant changes were implemented in the area of institutional reform. Measures taken with respect to development of the country's investment climate included the following: approval of the new Foreign Investment Act; establishing Organization of the Electricity Services Authority; establishing the Communications and Information Technology Commission (CITC); establishing the Saudi Commission for Industrial Cities and Technological Zones (SCICTZ); approving several new industrial zones in different regions; issuing of licences to international investment banks for operation in Saudi Arabia.

In addition, many other fundamental steps have been taken to aid development of the business environment and stimulation of private investments in Saudi Arabia. When the Government released the Eighth Plan (2005-2009), it emphasized these reforms by stating that administrative and institutional reform was an important issue within the context of the challenges and the opportunities available to the national economy.

Also, reforms in this regard involve several areas, key among which are removing the investment constraints, enhancing the incentives system to attract private investment, updating the investment laws and regulations, and improving the performance and efficiency of different Government agencies and institutions. Any positive developments in this regard will assist in improving the global position of the country with respect to the flow of foreign investment and its competitiveness.

#### **4.12 Agencies and laws to promote reform in Saudi Arabia**

##### **☒ Agencies**

The Saudi Government established different institutions to handle liberalization the economy; these include the formation of the Supreme Economic Council (SEC) in 1999, chaired by the King; It is one of the major entities responsible for studying the general framework of the development plans, financial policies and basis for preparing budget drafts; the priorities for expenditure, commercial policies at domestic and international levels, industrial and agricultural policies,

economic and commercial agreements and relevant economic studies are prepared for it by the consultative committees, and it is one of the major signs of economic reform in the Government.

The following explains the recent Government efforts in establishing various agencies to help in liberalizing its economic activities and PEs.

- Supreme Council for Petroleum and Minerals (SCPM); this was established in January 2000 as a body responsible for policymaking on the exploitation of petroleum, gas and other hydrocarbon materials.
- Supreme Commission of Tourism (SCT): this was established in April 2000 to help the tourist sector grow and to encourage investment from the private sector.
- Saudi Arabian General Investment Authority (SAGIA): established in April, 2000. It implemented a new foreign investment code that gives foreign investors the same benefits, incentives, and guarantees offered to local investors.
- There are other organizations e.g. Communications and Information Technology Commission (CITC), Saudi Commission for Industrial Cities and Technological Zones (SCICTZ), etc.

#### **☒ Laws**

Several laws have been issued to liberalize the economy, as follows:

- The Capital Markets Law (June 2003): this was intended to stimulate and strengthen the economy and increase the participation of the citizens in the capital markets.
- In August 2002, SAGIA passed an amendment to the Executive Rules of the Foreign Investment Act, strengthening the legal framework, allowing foreigners to own land and avoid double taxation.
- The Customs Union was established in January 2003 by the Gulf Cooperation Council (GCC) to standardize customs duties in the six member countries. In accordance with the Customs Union, the Government approved the reduction to 5% of customs for goods formerly charged between 7-12%. Source: Embassy of Saudi Arabia in Washington, (2004).
- There are other laws such as the Company Law, Rights Law, etc.

The Government issued a variety of laws and at the same time established different organizations, all of which will help them in implementing these laws



and accelerating the whole process. These laws and organizations would apply these reforms in the public sector and public PEs and help them in liberalizing and developing the economy. Issuing and establishing these laws and organizations supports the Government in building a strong economy and planning and managing liberalization various economic activities in the country.

Even with all these laws, organizations and changes in the public sector, it still dominates most of the economic activities in the country and suffers from mismanagement, poor performance and quality and large budget deficits. The researcher interpreted that these organizations lack the professional employees to manage them and implement these laws efficiently.

In the next section the researcher took the managers opinions about the performance of the public enterprise which will support his findings.

#### **4.13 Managers' views about the public sector**

Refer to section 12.3 appendix C

#### **4.14 Conclusion**

The public sector in Saudi Arabia has gone through several stages of development. It owned a large public sector which constituted twenty-three ministries and more than thirteen ministerial-ranking authorities. The Government participate in different industry sectors, especially in oil and gas (such as SABIC) and the services sector (Electricity Company, Telecom Company, Saudia Airlines, Airports, Hotels).

In addition, it participates in different financial sectors: 1. Public funds (Saudi Credit Bank, Real Estate Development Fund etc.); 2. Commercial banks (Riyadh, Samba, etc.). Public enterprises in Saudi Arabia have developed in the last three decades, because the country is growing quickly and most of the Saudi cities have expanded rapidly; also, it has a high birth rate (3.6%) and 9.6% male and 25% female unemployment. The Government has implemented different reform programmes since 1956 to improve the administrative procedures and planning processes, and it has alleviated the burden on the Government budget.

In the late 1990s, it implemented a number of changes, such as updating the old laws and creating new ones to support these changes, establishing new economic organizations, etc. One of the major economic reforms the Government decided to

take forward was implementation of privatisation programme. The decision to privatize depends to a large extent on how various reforms are sequenced and how they are implemented. The Government realized that these reforms include macro-economic improvements to the institutional and regulatory frameworks, strengthening the financial market and private sector, improving the financial system and reducing the barriers in implementing economic reforms and privatisation.

This makes privatisation a part of the Government's comprehensive approach to reform the public enterprises partially or fully. All studies and papers have concluded that there is much general support for privatisation, with respondents having a clear view of the potential benefits of (and the prime candidates for) privatisation. Privatisation should entail the careful planning and study of all the economic, social, administrative, and other matters before implementing the process, otherwise it will affect the country's economy.

This research found that the privatisation programmes in some developing countries was affected by different factors, e.g. privatisation strategy; participation of the public enterprise employees, their resistance and opposition to the process; procedures of implementation of the restructuring policies on the public enterprises; availability of regulatory framework to monitor and manage different services; availability of an investment environment and enough projects in which to invest. This research investigated these matters which affect the privatisation programme in Saudi Arabia to discover how deeply they affect the programme. Finally, the researcher gave his recommendations on each matter and presented different model to help the Government in speeding up their programme.



## **5 Assessment of the privatisation strategy and its implementation**

### **5.1 Introduction**

Implementation of the privatisation strategy depended mainly on the condition of clarity of both the policy and the procedures to be followed during the process. Privatisation programmes also need clarity in defining the procedures and assigning the responsibilities between different Government authorities. It requires preparation steps before implementing, e.g. designing the process, preparing the framework, sequencing of the process with other groups, etc.

The main reason for the success of implementation is the Government's support and its commitment to the programme. First, privatisation in the country was specified as a policy objective in the Fourth Plan (1985-90); it became a basic strategic principle of the plan, with the private sector being given the opportunity to run, manage and operate and monitor projects operated by the Government, provided that a lower cost service or product resulted.

Decision No. 60 was issued by the Council of Ministers on 1997 as a step towards implementing the privatisation in different enterprises and projects. The decision specified eight objectives and determined the principles to be taken into account in order to achieve them. It aimed for more liberalization of the economy and attracting local and foreign investors. It constitutes an official Government policy for implementing privatisation.

The decision was to ensure a continued increase in the share of the private sector and expansion of its participation in the economy, by adopting the best available modality, including transferring certain types of economic activities to the investment, enhancing its participation in development, and enabling it to carry out its investments and financing their role in accordance with the national development plan. The decision mentioned these objectives as generating direct and indirect revenues through liberalizing, selling and improving competition in the economy.

In 2002 SEC issued Decision No. 257, which included the privatisation strategy. The strategy includes issues related to the process of managing, implementing and organizing the programme between different organizations, such as the Royal

Court, Council of Ministers, etc. Since they issued the programme, the rate of implementation has been moving slowly: there is partial privatisation in the telecommunication and there have been a few efforts in other sectors.

This chapter reviews the privatisation strategy, the programme implementation and all the matters related to this. The main objective is to describe and analyse the strategy, and also to investigate the structure of the management and their responsibilities. It investigates the effect of the strategy on implementation. First, it describes the development of the privatisation in the country, its definition and the legal framework of the strategy.

Second, it investigated the responsibilities between different organizations and the major objectives guiding the programme. Thirdly, it discussed the major rules guiding the privatisation, the list of facilities and projects targeted for privatisation and the criteria for setting the priorities. It aims to examine whether there is a commitment to implementing the programme and how clear the monitoring of it is.

It explains the structure governing the programme at both the decision-making, policy and implementation levels and then assesses the actual commitment to privatisation. The strategy has been reviewed and evaluated, and finally, the study assesses the opinions of managers about the strategy in order to specify the cause of delays and their importance according to each of the participants.

## **5.2 Definition of privatisation in the Decision**

The decision defined privatisation as a process of transferring the ownership or the management of public enterprises, projects and services to the private sector, relying on market mechanisms and competition, through a number of methods including contracts for managing, operating, leasing and financing. The definition discussed methods of implementing privatisation, either through transferring the ownership or the management.

The idea of transferring them fully or partly to the private sector has not been raised before by the Government in any of its previous plans. The researcher interpreted this as being due to various reasons, the main one being that the Government wants to liberalize several economic activity from the oil sector (and hence the fluctuation of prices in the oil market).



They want to reduce the huge national debt, the annual budget deficit, and subsidies to public entities, and also eliminate the budget deficits for each enterprise. Introducing market mechanisms and competition are two phrases seldom found before in any decision issued by the Government, especially in the ones which related to the PEs: they started looking into the market and the mechanisms that are available in it, and realized there is competition to be considered in different markets.

### **5.3 The legal framework of these Decisions**

In the Saudi Government's previous plans implementation of the privatisation strategy was unclear. These resolutions were steps for liberalizing the economy and increasing the participation of the investor in different public activities related to economic and social development. Decisions went through various processes and approvals from different agencies and authorities, starting from the highest decision-maker (Royal Court, Council of Ministers) and the highest economic organization SEC.

There were other specialized organizations in different fields involved in approving and planning the strategy; these included the PC, Advisory Board for Economic Affairs, Standing Committee of the SEC and Chairman of Experts Commission for the Council of Ministers. The sequence of processes between these organizations shows how the Government took implementation of the programme seriously.

These new decisions addressed monitoring and managing the privatisation between these organizations. This could be interpreted their participation in the programme as being a commitment from the Government to implementing the process. This could increase strength of the legal framework of these decisions between all these authorities.

### **5.4 Privatisation programme implementation responsibilities**

The Council of Ministers issued Decision No. 257 on 5<sup>th</sup> February 2000, which stipulated that the Supreme Economic Council (SEC) will take the responsibility for supervising and following up the programme. Also the resolution assigned the privatisation responsibilities between different organizations. This section

describes the administrative bodies that are in charge of management and implementation. The strategy distributed the duties between these authorities as shown in Figure 5.1 and described below.

#### 5.4.1 *Royal Court and Council of Ministers*

Both of these bodies are headed by the King; they are the highest authorities in the country, and all major decisions are approved by them, thus giving the privatisation more support and commitment. They handled the major tasks in the programme, such as: approving the sale of the assets; the Royal Court approved the process with respect to matters that obstruct its implementation, such as issues related to restructuring, conditions of sale, or the Government returns and; issuing resolutions for the activities to be privatized.

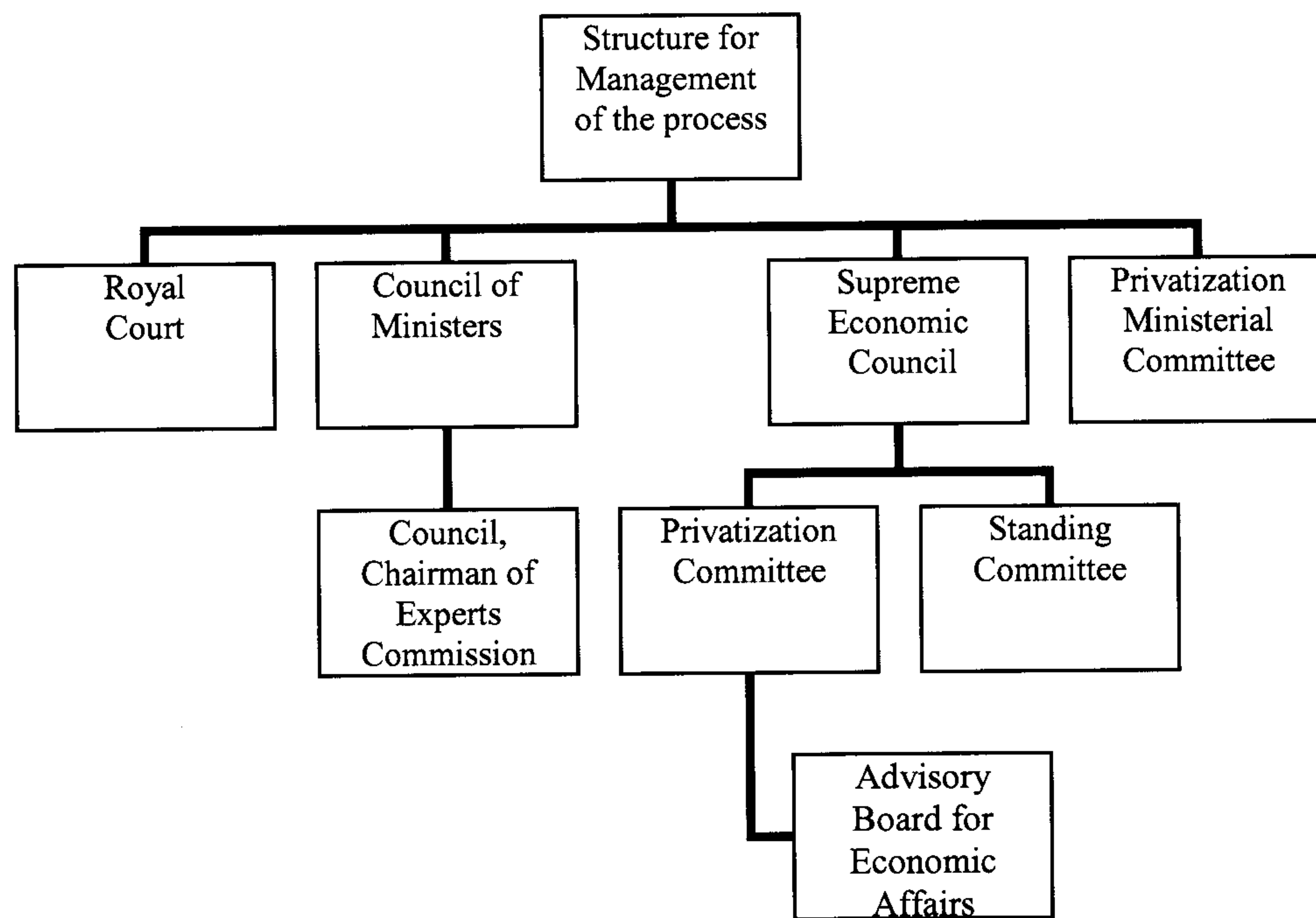


Figure 5:1 The existing management structure of the privatisation programme

#### 5.4.2 *Supreme Economic Council (SEC) (the highest economic authority)*

It is headed by the King and handles the following responsibilities: supervising the implementation of privatisation and; coordination of all related activities with other Government ministries. Their duties could be summarized as follows: determining which activities are to be privatized and supervising their programme; developing a strategic plan and timetable for implementation; monitoring implementation of the process; coordination with the competent



government agencies and; recommending sale or transfer of assets or services to the private sector.

#### **5.4.3 Privatisation Ministerial Committee (PMC)**

The strategy assigned to PMC the following responsibilities: coordination of the privatisation policies; supervising of the implementation; approving the privatisation plan prepared by the PC; assigning and directing some of the governmental organizations to study the privatisation for different PEs.

#### **5.4.4 Privatisation Committee (PC)**

This body is headed by the SEC's secretary-general with members representing the Ministries of Electricity and Water, Trade and Industry, Finance, Economy and Planning, and two members of the Economic Committee for Economic Affairs. Some of their responsibilities are shared with the concerned government agency; PC tasks are summarized as follows: managing and organizing of privatisation for the targeted government agency; implementation of the programme on the targeted enterprises; coordinating with them for the criteria of selecting projects to be privatized; recommending the privatisation strategy to be approved by the SEC and; recommending the PEs, projects, and services to be privatized, and setting the priorities.

In addition the committee handles implementation of the framework for the process and defining the regulations; monitoring and directing implementation of the programme and activities; preparing privatisation plans; planning and guiding the Government in their policies related to the reform and privatisation of the enterprises and their services; approving and announcing the Government's annual programme and; implementing the process on the agency and directing the programme.

The researcher perceived the Government objectives of establishing two privatisation organizations as follows:

- Assigning the most important tasks to the PMC (as the highest authority in privatisation), while the other tasks could be assigned to the PC.
- The PMC working as a link between the SEC and the Council of Ministers.
- Representing the PC in the Council of Ministers.

#### **5.4.5 *The Competent Government Agency (Public Sector Enterprise)***

The strategy assigned major tasks to them, as follows: studying feasibility of privatizing the enterprise or the project in coordination with the PC; supervising the enterprise or project proposed for privatisation; studying the financial and operational position of the enterprise; assessment of privatisation of the enterprise; submitting a study regarding justifications for the privatisation and the expected returns, alternatives to privatisation and the obstacles to implementation; submitting recommendations about privatizing the enterprise or activity to the PC and subsidiary of the enterprise proposed for privatisation.

Their other major task is managing the programme and its implementation under supervision of the PC, which involves the following: defining and selecting the terms of reference of the advisors and the selection method; preparing and developing implementation of the process based on the required studies; auditing and evaluating the position of the enterprise; implementing steps for restructuring; preparing the documents required for selling the enterprise; managing of the sale process (e.g. marketing, qualifying the investors, inviting bids by investors, evaluating the bids, negotiating terms of the sale, and preparing the sale contract).

#### **5.5 *Researcher's comments on the assignment of responsibilities***

The Government involved a number of authorities in implementation of the process to handle various tasks. The researcher interpreted that the main objective was managing and monitoring the process. Decision No. 257 agreed that supervision of the privatisation would be handled by the SEC; then after 6 days the SEC agreed to establish the PC, which would be responsible for managing and planning the programme. Through all these efforts the Government was enhancing the implementation of the programme. The involvement of different organizations in managing and implementing indicated that they were taking the process seriously.

The strategy mentioned the obstacles facing implementation of the process; this was in agreement with the researcher's opinions in studying the barriers to implementation of privatisation in Saudi Arabia. This is another indication that the Government are committed to implementing the policy, and that it is aware that the process could face obstacles. This emphasises that they will work on



removing them. The strategy considered major tasks in the process, such as restructuring, conditions of sale, and the Government needs high authority with more power and as they are the highest decision-making authorities in the country to approve that e.g. the Royal Court and Council of Ministers, SEC.

The implementation of the process took several steps, from the highest decision-making authority to the highest economic authority to the Council of Ministers to PEs, etc.. Involving all these organizations made the process longer and more complicated. Every organization involved in the process needs some time to study and analyse the tasks and methods of implementation, so the approval from each organization needs some time. All these steps affected the process negatively and delayed the programme. The researcher had additional comments on the following areas:

**☒ Decision Making and Policy level:**

- Many of these bodies (e.g. Council of Ministers, the SEC and PMC) share members; members of the PMC are available in the Council of Ministers and in SEC.
- Different organizations are involved in planning and managing the programme this duplicated their efforts, lengthening the process.
- The process lacked coordination and monitoring of work between all these organizations.
- Meetings of some of these organizations are not scheduled and there can be long gaps between meetings.
- The PC is chaired by the secretary-general of the SEC, with members representing Ministries such as Electricity and Water, Trade and Industry, etc and two members of Economic Committee for Economic Affairs. This shows that the committee lacks expertise in different fields that are related to the privatisation.
- There are similarities in the responsibilities between the PMC and the PC. This could create duplication and make implementation longer.
- These two organizations have the same representatives; for example, the Ministers of Electricity and Water, Finance are available in the PMC, while the PC has the same representatives from these organizations, but with lower ranking than ministers.

**☒ Implementation level:**

- The strategy assigned to them major and critical tasks, such as:
  - Studying the feasibility of privatizing the enterprise.
  - Justification for privatisation and the expected returns.
  - Alternatives to privatisation.
  - Obstacles to the programme.
  - Supervising the activity.
  - Preparing privatisation implementation.
- Most of the enterprise employees lacking the experiences in different fields, raising questions about new subjects such as the implementation of privatisation. The current employees do not have enough experience or knowledge.

It was found that in most of the privatisation programmes the public sector managers and employees constitute barriers in the process (as it shown in Chapter Two) because they look out for their own benefits and if these services are transferred from them they will lose out. All of these factors impacted on privatisation implementation procedures and the Government's reliance on the enterprise employees in most of the activities that are related to the management and implementation.

This reliance could lead to these managers influencing the process, but the Government found that keeping them in these positions was the easiest way to deal with them. The Government should study other countries' experiences, where they tried to avoid dominating their employees in the process because they could constitute obstacles and delay the whole process.

The strategy did not mention who would handle some of the tasks, such as:

- The strategy discussed developing a timetable for implementation but did not specify who would prepare the timetable.
- It stated tackling the obstacles but not who will define and address them.
- The extent of the need to restructure the enterprise.
- Developing a preliminary plan for privatizing the enterprise.
- The percentage to be sold and method of sale.
- Valuation of assets and details of the bids.



## **5.6 Objectives of the programme and recommendations of the researcher**

Studying the objectives allows for the researcher to know how successful the process has been, and the actual implementation should also be compared with the programme objectives. The strategy stated several objectives of the programme, which will govern the implementation of privatisation. The objectives are summarized as follows: improving the efficiency of the economy and enhancing its competitive ability to meet the challenges of regional and international competition; encouraging the private sector and increasing its share of domestic production to achieve growth and encourage domestic and foreign capital to invest locally; enlarging the ownership of productive assets by citizens; increasing the employment opportunities, optimizing the use of the national work force and ensuring the continued equitable increase of individual income.

- The fifth objective was providing services to citizens and investors in a timely, quality and cost-efficient manner; Privatisation, particularly of enterprises that have monopolistic concession rights, may lead to increased prices and a reduction in the quality, because some enterprises receive Government subsidies prior to being privatized. As this is an extremely important issue, an independent regulatory agency should be established to deal with such matters.

Also, rationalizing public expenditure and reducing the burden on the budget by giving the investors opportunities to finance, operate, and maintain certain services. The Government budget is expected to benefit from reduced allocations for operating expenditures as a result of the privatisation through several contracts. The last objective is increasing revenues from returns on participation in activities to be transferred to the investment.

The objectives of the programme were in agreement with those of other countries because all of them are willing to improve the efficiency and competitiveness of their economy; therefore, they listed the proper objectives that could achieve maximum benefits for the enterprise. Specifying the objectives makes implementation of privatisation easier and more market- friendly, by introducing some market techniques e.g. competition, liberalization. The comments are as follows:

- The first objective depends on liberalization and allowing for participation of more investors and citizens by increasing their shares in different public economic

activities. Through analyzing implementation of the privatisation on the STC, the Government sold 30% of their shares (20% citizens, 5% General Organization of Social Insurance and 5% Pension Fund Organization). They exposed this sector to market forces on a limited basis; they still owned 70%, so they still retained control of 80% of the STC shares.

- Also, this objective would not be achieved in the short term after transferring ownership of the entities, because most of the enterprises were still owned fully (ports, railways, airlines) or mostly (STC) by the Government. Also, those entities, before privatisation, suffered from financial, management, technical, and other problems, so they need some time to improve their efficiency.
- The second objective was introducing competition in the privatisation. Again the researcher took the electricity sector as an example, since the programme was implemented while they were still controlling these sectors, and there is only one company available.
- Concerning the second objective, in the past the Government has supported the private sector and it realized that its participation in the economy is essential and will help in diversifying the economic base away from the oil sector. The opinions of both the Government and the researcher are in agreement, that the privatisation success depended on availability of a strong private sector to manage and implement the process. On the other hand, the private sector could constitute obstacles to implementing privatisation; this suggests the Government should continue support of the local private sector.
- The local private sector has limited experience in executing big infrastructure projects and most of the projects targeted for privatisation were in different services. Also, they lack knowledge about privatisation methods; hence the private sector needs continued support, especially after joining the WTO in November 2005, allowing for international investors to participate in different economic activities in the country. They should provide soft loans, technical assistance, etc. This would help in developing and growing the private sector, and maintains its participation in economic activities.
- The third objective, the opening of different investments for the citizens, will allow for them to invest in the country, increasing the income and keeping the financial resources in the country. The researcher thought that the Government's efforts in this part are very limited since they started in 1997; the only sector in



which the citizens were allowed to own 20% in the STC. They should improve the investment in all the economic activities and allow the citizens and investors to participate in ownership of different entities.

- They succeeded in attracting the citizens to participate in the STC share issue, so one may ask why it has not increased the opportunities for citizens' participation in other sectors and services. Preparing a timetable for releasing the remaining Government shares in the telecommunication or in any other sectors will allow the Government to utilize the cash to develop other sectors.
- Participation of both domestic and foreign capital would provide a chance for the Government to build a strong economy and increase its financial resources. It realized that participation by foreign investors would allow them to develop different services and sectors, such as banking systems, human resources, introduction of high technology and industries, etc. They issued different laws for attracting foreign capital to invest in the country; this included allowing foreign to own land and allowing foreigners to invest in the stock market. The researcher found the Government policy had succeeded in the past by issuing laws that help in attracting the foreign investors. They should keep its policy of attracting foreign investors and continue to develop the investment environment.
- Increasing employment is one of the Government's priorities because the country started suffering from high unemployment, which reached more than 9% among males and 26% among females, especially among the newly graduated; that could create social, economic and security problems. The Government applied different processes and procedures to increase employment for this section of society but these efforts are still less than required. Increasing employment can be achieved through increasing liberalization of different economic activities and attracting investors.
- The Government realized that the citizens have problems obtaining services in different sectors; the decision-makers also realized that privatisation can be dangerous, and could increase prices and reduce quality of the services, so the Government will establish a regulatory agency. A regulatory has not yet been activated in most of the sectors, such as Ports, Rails etc. They should consider that establishment of these organizations could create future delays in the programme, especially if the investment environment in the sector limited.

- Most of the developing countries suffered from high levels of subsidy to their public enterprises, and they have started to transfer them to investment. Saudi Arabia is one of the countries exposed to fluctuation in the oil prices, and this has increased their debt to \$160 billion. The Government decided to rationalize the public expenditure, but this affected most of the basic sectors such as health, education, etc. Later, they issued a Privatisation Strategy with a list of services targeted for privatisation to reduce their debts and transfer them to investment. This could allow for developing other services such as health, social affairs, etc.
- They have shares in different economic activities and all these entities have succeeded with the Government support. They could increase their revenues by releasing part of their own shares to investment. Increasing the revenues by looking for the highest prices without considering other factors such as technical issues, management and quality could affect these services, through selling some of them to unqualified investors. This could harm the country's economy, so they must investigate the experience and capability of the investors (financially, technically, and operationally, etc.) before proceeding in the bidding process.

### **5.7 The major principles guiding the programme and were they achieved?**

The Strategy mentioned the basic principles that must be taken into consideration when implementing privatisation, summarized as follows:

First, to ensure the proper disclosure and efficiency in the process, the programme should be guided by the following: all the services should be carried out in a transparent manner, and announced in accordance. The public must be aware of all aspects of the process prior to and during completion of the sale through preparation and advertising of complete information on the sale, publishing all data on conditions of the enterprises, standards for the classification of bids, the valuation of assets and the bids, names of the investors, the amounts paid, conditions of the sale and, lastly, the public opening of the bids.

Second, subsequent implementation of the process is very important for the success in the privatisation, and a reasonable timetable should be prepared for each stage of the programme, as activities that proceed slowly are more susceptible to failure. Third, adopting effective change in the way and methods of the management is counted as a major aim of every step of privatisation.



After studying the basic principles, the researcher found that it is difficult for the Government to achieve some of them with full transparency, or to publish complete information on financial, technical, etc. aspects of most of the enterprises or all of them to make them readily available to investors. As mentioned in Chapter Four, most of the public enterprises are lacking such information; also, they have financial, technical and management problems. Therefore for the first item to be achieved the Government should improve the information system and the business conditions in each enterprise.

Before implementing the process they have to study methods of improving the efficiency, quality and productivity of the enterprise services. Otherwise this could have an effect on taking them to the private sector or liberalizing them. Consequently, if the Government wants to attract more investors it must associate the process with full transparency for the local and international investors. Success of the programme is not easy, but is not difficult if they design a clear plan by following clear procedures and publish all the information.

They could develop the management team by attracting the most qualified employees which will help them in producing valuable documents in financial, technical, and other matters in the enterprise. These documents or reports can be used by the investors and the Government. It must cover all the financial data, technical and operational information, condition of the facilities, volume of the investment and types of the business available, condition of the market, type of the customers, etc. This makes the enterprise more valuable for the investors.

Implementation of the privatisation process in Saudi Arabia is moving slowly: according to [127] "Privatisation is one of the slowest moving areas in Saudi Arabia." The Saudi Government is implementing different reforms and establishing different organizations; all these efforts were implemented to improve and develop the economy but the process needs speeding up. By looking at the development of the Government and reviewing the revenue from the oil sector. As an example the total value of crude oil, natural gas and petroleum refining was \$51.7 billion in 1992, out of a GDP of \$123 billion (42%), in 1995 this dropped to \$48.2 billion out of \$127.6 billion (39.0%), finally, in 2000 this figure increased to \$77.6 billion out of \$173.1 billion; that represents 44.8%.

These figures show the Government is still suffering from slowness in implementing the economic changes and liberalizing the public economic activities. All of that indicates that the country is still dependent on oil production, and that guided the researcher to the following:

- The privatisation will take longer than planned until the process is implemented partly then fully, because the Government still controls most of the economic activities in the public sector.
- The Government should accelerate liberalization of the economic activities to reduce its dependence on the oil and gas sector.
- Slowness in liberalizing the economy keeps the budget connected with the oil sector and the fluctuation of its price, potentially increasing the deficit.
- Speeding up the privatisation requires the issuing of a timetable for each activity. This helps in monitoring, organizing and managing the process. If the Government would like to manage and monitor the process, it will have to prepare a schedule and timeframe.

Both the researcher and the Government are in agreement on the role of the management in leading the privatisation, and this was one of main reasons the researcher questioned and interviewed the public and private sector managers' in this research. The change in management principle was implemented by the Government in 1997, when they liberalized the Telecommunication Company, but it didn't work effectively for the following reasons: The Government assigned one of the STC's regional directors as president of the company; He could not practise his management skills in competing with other providers because there was no other company to compete with.

Additionally, these types of managers, who have worked for a long time in the public sector, lacked new management skills and did not have the capability to manage a company with huge capital (reaching \$13.3 billion). He kept this position for sometimes until the company council replaced him with a new manager from the private sector. The role of the Government should be to attract managers with more experience, especially from the private sector, to lead these companies; it should prepare training programmes to develop their skills and increase the efficiency and productivity. Today, changing management is one of the techniques that have been found to be effective in improving the management



and increasing efficiency and productivity. Without a change of management, it is impossible for the enterprise to achieve the targeted plans and the benefits.

This factor has a positive effect on employees' performance and the quality of the services. Different developing countries have implemented different techniques for changing management; for example, one of the ways used is replacing (fully or partially) the top or senior management in the company,, or introducing different private sector techniques in managing and marketing a variety of services and products in the enterprise.

### **5.8 Procedures of implementation and major steps that could be considered in the process**

Trivedi (2002), who believes that policymakers around the world face a dilemma. They are often convinced about the merits of privatisation, but do not know how to implement it. The enormous volume of literature on privatisation, the dramatic success of privatisation in a large number of diverse countries, and the economic realities of the excessive burden of overstretched public sectors in their own countries, have persuaded them to try privatisation. Yet to most policymakers the process of implementing privatisation is shrouded in mystery. This fear of the unknown often discourages them from taking the first step.

Assigning the responsibilities and tasks are among the major steps that should be taken at the beginning of the process of implementation, otherwise the process will be delayed. Item (C), Chapter Two of the Privatisation Strategy mentions several points related to implementation of the process: first, defining elements of the Governments' policy for the sector, the appropriate regulatory frameworks, and the steps and timetable required for implementation; second, specifying the obstacles to implementation and the extent of the need to restructure the enterprise, the steps and timetable required for applying the process; lastly, preparing a plan for privatizing the enterprise or sector, including the percentage to be sold and method of sale, and a timetable for completing the process. This could serve the Government as a important basis for selecting an advisor to assist with implementation of the process.

The document also mentions how the concerned agency, under the supervision of the Privatisation Committee (PC), manages the privatisation, in cooperation with

other Government agencies. The process of management included defining the conditions of the advisor, selecting the methods and the advisors, developing an implementation plan and implementing steps for restructuring the enterprise. It also includes auditing and evaluating the position of the enterprise and preparing the documents required for selling the enterprise. Management of the sale process includes marketing the programme, qualifying the investors, inviting bids by investors, evaluating the bids, negotiating terms of the sale, etc.

The main reason for successful implementation of privatisation is the Government's support and commitment through assigning the process to specialized organizations in this field [129]. Different comments related to implementation of the programme were found in the strategy. As mentioned above:

- Tasks (1, 2, and 3) did not specify who would handle them.
- Some of the tasks assigned to the public enterprises included implementing steps for restructuring and managing the sale process (which includes marketing the process, qualifying the investors, etc.), while employees of the public sector in Saudi Arabia, lack knowledge about privatisation and implementation matters such restructuring the enterprises, managing the sale process, marketing the programme, etc. All these factors could have a major impact on the programme.
- The enterprise employees could hire external advisors to help them, but still they lack the knowledge to guide and monitor the advisors, and that could hinder them in managing the advisor.
- Most of the literature showed that the public sector employees have a major impact on implementation of the process because they would be looking to see if they could benefit from it; otherwise they constitute opposition to the programme and assigning these tasks to public sector employees would delay the process.
- All these reasons could constitute delays to the implementation of privatisation from the enterprise employees. This is in agreement with the researcher's opinions in selecting and investigating this type of research. This allows for investigating and studying the barriers and the problems hindering the process and developing the process by building an "Efficient Model" to help the process run smoothly.



In conclusion, privatisation has different interrelated tasks between multiple organizations and authorities, and it is not an easy task for the public enterprise employees to manage implementation of the process. Developing and planning various activities in the strategy increases the monitoring and managing of the tasks between them and avoiding the delay. The researcher proposes establishing independent specialized organizations to handle the planning, designing and managing the process.

This organization can handle the privatisation process and manage the programme; some of the new tasks can be assigned to them, and they can train the public enterprise employees and develop their skills. In addition, they could review the privatisation strategy, assigning all the tasks that are not specified in the strategy and introducing the privatisation process as part of an integrated reform plan. This organization could be called the Privatisation Commission.

### **5.9 Criteria for setting priorities of the programme**

In accordance with the Decision No.257, the Supreme Economic Council (SEC) shall determine which activities are to be privatized, in addition to these recommended for privatisation by other public enterprises. A list of the activities to be privatized shall be issued by Resolution of the Council of Ministers. The Government assigned the task of determining the activities to be privatized to the highest economic authority in the country (SEC) and also releasing this activity or enterprise was assigned to the highest authority in the country (the Council of Ministers).

This provides further support for implementing the process, which may reduce any barriers or opposition. The researcher thought this was a reasonable decision; the process would not be implemented or would not work if it were left to another organization, especially the public sector managers. Assigning the approval to select and transfer the enterprise between two organizations could delay the process. However, they could shorten the process by assigning these tasks to the SEC, because most of the members of this organization are in the Council of Ministers but the Government can listen to the Council's opinions if needed.

The strategy stated that the Privatisation Committee, in coordination with the competent agencies, shall begin privatizing the recommended projects on a

selective basis and in accordance with the criteria for selecting projects to be privatized. Assigning the programme to the Privatisation Committee helps in speeding up the process, but they lack expertise in different fields as mentioned previously. This emphasised the point that the Committee needs more support to perform their tasks more efficiently and in a proper way. The researcher thought that the Government should assign designing, planning and managing privatisation to an organization fully staffed with more experienced employees.

The programme mentioned that the approval of the Council of Ministers is required for implementation of the sale, upon the recommendation of the SEC. Approval may also be required from the Royal Court with respect to matters that obstruct the implementation, such as issues related to restructuring, conditions of sale, or Government returns. These approvals between different organizations will make the process longer, and it duplicates the work between them, especially if their members are the same; also, all of them are headed by the King.

The process could be shortened by gaining approval from the first step in the chain, or assigning these tasks to one organization and eliminating the other organizations' responsibilities and thus increasing the coordination and monitoring of the programme.

#### **5.10 Criteria for determining priorities in selecting enterprises**

With the goal of enhancing the productive capacity of large public enterprises and projects, the strategy mentioned several priorities for selection of enterprise or project, such as the potential positive effect on the national economy, readiness of the enterprise for privatisation and social benefits of privatizing the enterprise (increasing employment opportunities, making optimal use of the workforce, and ensuring the continuation of fair increases in individual incomes). The last two criteria are inadequacy of the services provided by the public enterprises.

The strategy selected the major criteria that can support them in implementation of the process and help in building a good economy. The researcher agreed with them with respect to these criteria, and all of them covered different aspects in the national economy, social benefits, employment, etc. Most of these criteria were achieved when they implemented the partial privatisation of STC.



The researcher thought the other enterprises could achieve these criteria, but they have to make them ready and they should take pro-active measures such as liberalizing them, introducing competition and restructuring the financial, technical, management, operational fields to ensure these priorities are achieved. Maintaining the public enterprises in their current condition will have an effect on the privatisation programme and could delay the process.

Finally, the strategy targeted a number of public enterprises for privatisation; most of them were not ready for privatisation, did not have the market tools and lacked different departments to develop their business. All that is required from them is to review all targeted enterprises for privatisation and study their feasibility for privatisation. If any one of them is not ready it should be supported and made ready for the market, customers and investors' requirements.

#### **5.11 List of the economic activities and services to be privatized**

The Government has shares in more than 73 companies, constituting almost 58% of the total available shares, with a value of \$7.7 billion [130]. The Privatisation Strategy designated more than twenty sectors, economic activities and services as available for participation by investors and citizens. The Saudi Government's longer term plan for the investors' participation is 70-80% ownership in most of the joint ventures, and the introduction of commercial discipline to the operation of joint-venture and Government-owned companies. The method, size, and the timing of the participation will be determined by the Strategy.

The list shown below indicated the Government had tried to reduce the debt on their budget and reduce the fiscal deficit by transferring most of the public enterprises or services to investment. They are willing to diversify their income resources and develop the technology and human resources. Handling a new subject such as privatisation is not an easy task, especially when the process is distributed between different organizations and the country lacks experienced employees.

The list includes water, sewerage, saline water conversion (desalination) and telecommunications sectors; aviation services (including airports), railroad services and roads (including managing, operating, and maintaining existing highways; building and operating new highways; postal services, grain silos and

flour mills, seaport services and industrial cities services). This includes some of the companies in which the Government hold the highest number of shares, including the Saudi Arabian Basic Industries Corporation (SABIC) (70%), the Saudi Electricity Company (86%) and the Saudi Telecommunication Company (70%).

The selected services and sectors above show how much effort should be put in by every sector or enterprise employees to prepare future studies and documents for managing all the work. To deal with the experts or advisors and guide them in the process, each sector should assign the process to a qualified management team with enough experience to handle each task. The Government plan was to take all or most of those activities to investment, but the programme lacked a timetable for implementation of the process; this could be one of the reasons for the delay in the programme.

The list also included selling shares in banks, the Saudi Arabian Mining Company (Ma'aden), the National Shipping Company of Saudi Arabia, the Saudi Arabia Public Transport Company and Saudi Airline (Saudia). In addition they will liberalize the Government shares in domestic oil refineries; Government shares in joint investment companies with Arab and Islamic countries; Government hotels and Youth Affairs Services (which includes privatizing the sports clubs).

The process included other services, e.g. municipal services, including building and operating slaughterhouses, public markets, shopping centres and public parks; public transportation services, municipal revenue collection and cleaning and waste management services. The decision added the educational services (e.g. building and maintaining of educational buildings, printing of educational books, school transportation, student housing and renting and operating of public school and university facilities).

The social services included areas such as managing and operating social welfare institutions and recruitment services for Saudi nationals in the private sector. Agriculture services included quarantine services, veterinary diagnostic laboratories and clinics; medical services included building and operating medical facilities and patient transportation services.



The researcher recommended previously that they could assign planning, designing and managing the process to one of the organizations involved in the existing structure. This makes the process more manageable, making all the tasks and efforts concentrated and utilizing the information efficiently. Moreover, this organization needs support and the provision of some experts or advisors in different fields. This increases monitoring and coordinating of the responsibilities between different organizations and the whole process. For each organization employees with enough experience could be recruited and provided with adequate training programmes, which would allow study and investigation of the process in more depth. Preparing a timetable helps the Government to schedule and coordinate the process, and deal with the investors.

### **5.12 Methods of privatisation that can be used**

The privatisation strategy listed several methods that could be implemented in Saudi Arabia, such as: Transferring ownership; Contracting for management and operation; Leasing of the enterprise; Financing of the enterprise or the project and; Sale of the enterprise (public subscription, or sale to a principal investor). The process comprises a number of methods or tools that can be implemented on the service, enterprise or on the projects. The aim of the Government is to utilize these types to manage, operate and finance various sectors. The aim of the researcher was to study these methods to show the complexity of the privatisation process and the difficulty in managing and implementing it.

The Government should consider each method has its advantages and disadvantages, and in selecting one it should consider the condition of the country and the enterprise in terms of financial, legislation and technical issues and the factors that contribute to its success or failure. With such a variety of methods the Government could use more than one. This demonstrates the importance of specifying the objectives of implementation which will guide them in the method selection. The types are described below:

#### **☒ Management Contracts**

The strategy described this contract type: “The contractor or the investor takes the responsibility for managing, operating, and developing an entity for a period of time and an amount of money to be agreed upon. These contracts are usually used

in cases that require high levels of specialized experience in management, operation, and marketing, or when the Government has a large investment in the project's assets and prefers to keep the investment rather than sell it; that is, ownership of the assets is not transferred.”

It also added that although the contractor takes over the tasks of monitoring and daily supervision of operations, they do not assume any commercial risks (operating losses) if they occur, which are borne by the owner (the Government). This type of the contract could be used in the country, especially as the country has huge investment in several sectors that the Government wants to retain. This contract could be used as a first step before implementation of privatisation to improve the management skills.

The researcher believes this contract has negative aspects on the enterprise and the Government will take most of the risk and responsibilities if the contractor misuses the project. The Government needs to monitor and manage this contract very carefully; otherwise it is possible that they will misuse the assets.

It needs cooperation between the investors and government. They have to work with each other and prepare a clear contract which defines their responsibilities in order to develop and improve the services. It could help in developing and improving the enterprise management team and teach them new skills and techniques in the monitoring and supervising of different activities in the enterprise. In addition, it helps in introducing different business skills to the enterprise.

#### **☒ Leasing Contracts**

The strategy states “A leasing contract is an agreement between the public and the private whereby the latter provides the enterprise with administrative and technical expertise for a specific period of time, in exchange for an agreed-upon financial remuneration. The investor leases and utilizes the Government assets, and the contract determines the amount of the condition to be paid to the Government as well as the responsibilities of each party towards the other.”

It was implemented by the Saudi Ports Authority, which leased some of the ports to local and foreign companies. However, these ports still receive annually a



budget from the government: the researcher concluded that these contracts were not managed properly and this could refer to this organization lacking the experience in implementing this type of contract.

For the success of the of the contract it should be assigned to more experienced contractors to maintain the facility or service, operated on legible profit with reasonable prices, and with the provision of good service. In the ports contract these companies share with the Government the revenue from operating these ports. It needs a good system financial, accountability, regulation and management.

This could affect the new investors and some of them would not be sufficiently interested to bid. Hence it needs good management and supervision of a variety of activities in the contract. This develops the service in different fields, improving their quality and productivity which affects positively the satisfaction of the customers.

#### **☒ Financing Contracts**

It is one of the complex contracts in the privatisation because it is interrelated between multi of parties; it is more developed and advanced than the other (as mentioned in the strategy). The investor in this contract is responsible for providing the capital, managing, operating, and investment expenditure. It could be implemented by different methods such as lease-build-operate (LBO), build-transfer-(operate) (BT, BTO), buy-build-operate (BBO), and build-own-operate (BOO). Success of these forms needs a strong legal and regulatory framework and sufficient financing resources. This contract should be implemented through open competition between all local and international investors.

These contracts deal with investors, government, regulatory, etc bodies. However, all of these contracts require study of all their related issues and parts before implementation. This all emphasizes the researcher's proposals for avoiding complexity in the process and smoothing the implementation; it would be better to establish specialized independent organizations or enlarge the existing PC and assign to them the planning, designing, and managing of the process.

Most implementation of this type of contract could be on infrastructure projects where the contractor will handle all the activities in the project. Therefore the Government should make sure before implementation of this type of contract that all legal and legislation matters are covered; this will help in supervising and monitoring the contract conditions and different activities in the project. Otherwise implementation of the contract without supervision increases the prices and lowers the quality of the services.

### **☒ Sale Contracts**

Implementation of the sale contract needs preparation of a strong contract which eliminates the impact on the consumers and customers and keeps their rights. The strategy divides these contracts into the following:

- First, direct sale to the investor through public subscription; this is suitable for enterprises that are characterized by stability, continuity of activities, a sound financial position, and commercial feasibility, or one that can become commercially feasible in the short-run. Either the entire entity or some of its shares are sold to investors by offering them for public subscription.
- Second, sale to a principal investor sells the enterprise to a principal local or international investor who is capable of providing the required financing, management efficiency and technology for production and marketing development.

The first type was implemented when they released 30% of the Saudi Telecommunication Company. Success of this contract requires certain factors to succeed: appropriate timing of the public offer; a sound knowledge of the financial position; profitability; good regulation and regulatory framework; a good banking system, a well-developed and active capital market; and public education.

In conclusion, these contracts involve different tasks such as evaluation of the bidders, checking of their financial, technical, operational and administrative capabilities in handling the contract. It requires study into the effects of this type of contract on financial conditions, development of the stock market, etc., because it requires huge financial resources. It also requires investigation of the possible impact on human resources.



The strategy also mentions briefly other complex mechanisms, such as offering the enterprise for sale to its employees or allocating a portion of its shares for sale to its employees at market prices. These methods are usually used to privatize enterprises with low profitability or productivity, in order to encourage employees to improve the performance of the enterprise. The Government should present some of these types as incentives for the employees; if they become owners, this can impact positively on their productivity and efficiency. Another mechanism is a debt swap, whereby the debts are valued and converted into shares in the name of the creditor.

In the researcher's opinion implementation of such mechanisms need developing of the employees' knowledge about the advantages they will get from these contracts. The Government should develop these contracts to fit the enterprise employees' requirements. These contracts emphasise the complexity of implementation of the process. This strengthens the researcher's recommendation of assigning this process to a specialized office and recruiting more experienced employees to deal with them. Privatisation has multiple methods, but the Government should select the proper method that reduces the dangers of privatisation and enables them to achieve their goals.

### **5.13 Comments on the progress of the privatisation process**

They originally implemented privatisation in the 1980s and are now strongly committed to the process, encouraging the private sector to participate by creating a suitable investment environment that is conducive for investors. Al-Mulham (2000) stated about the first step taken by the Government that "...its liberalization of the economy as an introductory process to implement privatisation was the sale in 1984 to the citizens of 30% of the Saudi Arabian Basic Industries Corporation (SABIC) enterprise shares owned by the Government,".

When the Government budget suffered from severe financial crises and their budget was exposed to financial deficit they started to consider releasing more enterprises and sectors for private sector participation. The Telecommunication sector was one of those liberalized, as confirmed by Cordesman (2003):

In 1995 the Government decided to establish STC to provide and increase flexibility in the financial, administrative and technical areas in the telecommunication. It started liberalizing their services to work on a commercial basis and attracting local and the international investors to develop this sector and manage it more efficiently. In 1998, they directed the privatisation of the whole sector, which was provided and operated by PTT. In 1999, the private STC took over from the STC operated by PTT.

The Ministry of Economy (2004) mentioned:

At the end of 2002, they announced that 30% of STC Shares would be released for sale to citizens (20%), 5% to the General Organization of Social Insurance (GOSI) and 5% to the Pension Fund Organization (PFO). In 2004, the Government sold the second mobile phone operation licence to a group of Saudi businessmen and Etihad Etisalat (Etisalat United Arab Emirates).

In the rail projects, the Government plans to attract investors to participate in one of the privatisation methods; Build, Operate and Transfer (BOT). The Saudi Railway Expansion Programme plan is described by Meed (2002): "...a new line between Riyadh and Jeddah with almost 1000 km, and another 115 km of new line between Dammam and Jubail. They will also upgrade the existing Dammam–Riyadh line (about 450 km),". These studies were begun in late 1990s and the early part of this decade, but none of them have yet been implemented.

The Saudi Government took several forward steps in implementation of privatisation on various sectors and services as follows: in the Ports sector the private sector started to participate in operation, managing and maintaining of various ports in a commercial way; transferring the General Directorate of Ports to a public corporation named 'Saudi Ports Corporation' with legal entity and financial autonomy. Restructuring of the Saudi Electricity Company was completed by merging all the eleven electricity companies into one company under name of the Saudi Electricity Company SEC.

The Minister of Electricity and Water (2005) signed a contract with Swiz Savig Franch on 17 August 2005 to prepare a complete study for the water network, and submitted an evaluation of the existing situation, customer satisfaction, levels of operation and maintenance, future requirements and the customers' opinions. This step will be an indication for prioritising the projects and the nature of the private sector's participation in the water sector. Elaqtadah Newspaper (2005) mentioned "The Saudi Government issued a licence for the first private sector company, and their work would include development, construction, operations and maintenance



of the Shubaih Project to produce water and electricity, and then transfer and sell them,”.

Reviewing what has been done on the programme up to now, the researcher has found the actual implementation was very limited. The Government has been considering liberalization of the economy since 1985 but they did not implement any process, after releasing 30% in SABIC, until the late 1990s when they issued two resolutions (No. 60, in 1997 and then No. 257 in 2003). The first related to privatisation objectives and the second to privatisation strategy.

They implemented partial privatisation of the STC, but in the other enterprises or sectors the process was very limited and no real work happened. The researcher interpreted that there was no timetable to implement the programme, leaving the process open-ended. Secondly, members of the PC did not have enough experience and possibly lacked knowledge in this field. They represent different Government agencies: they are not full-time employees and their work in the Committee is concerned mainly with giving opinions on various studies. Also, most of the implementation tasks were assigned to the public enterprise employees. In addition, the Chairman of the SEC is the secretary-general, who acts as chairman of the PC and was recently assigned as a chairman of the Stock Market. He is in charge of three large critical economic organizations and is kept very busy between all these organizations.

Another comment on this topic, as mentioned in the above sections, is the issuing of the list of activities to be privatized without specifying or mentioning the timetable to take these services or sectors to privatisation. It is very important to issue a timeframe for implementing the programme on different activities. This helps in preparing, reviewing the studies, managing the programme correctly and organizing and implementing the privatisation programme professionally.

This factor helps the process to be more transparent to the public, investors and the Government. Also, most of these enterprises or sectors are not ready for privatisation and still suffering from various problems. All these reasons delayed implementation of the programme, along with other factors already discussed or which will be discussed later in other chapters; some of them could constitute barriers hindering implementation of the process.

The above literature and reports indicated some efforts have been undertaken by various government agencies, emphasising that there is a commitment from the Government to participate with the private sector and implement the programme. They issued several resolutions and decisions, and instructed different organizations to proceed with or speed up implementation of the programme. However, even with all these efforts the programme is still moving slowly; the researcher concluded that the programme is still facing some barriers hindering its implementation.

#### **5.14 Official opinions on implementation of privatisation**

The researcher selected some of the interviews and material from the literature review which expressed the opinions of the decision-makers in the country; they were not involved in the questionnaire because the researcher had difficulty in contacting them. The aim of this section was to discover if they could constitute barriers to implementation of the process and if the programme was progressing or if they were the cause of delays or barriers facing the programme, and also to find if they agreed with the Government plan to transfer these services or sector.

Ghafour (2005), “the Deputy of the King stated that Saudi Arabia will go ahead with its reform and development programmes, adopting strategic plans in tune with international economic developments”. Arab News (2005) mentioned the Minister of Economy stated “The Saudi Government is following the ideal way to implement the privatisation programme by looking to other countries’ experiences. The way is still moving slowly and taking longer than the Government wants to make sure it is implemented correctly,”.

The Minister of Finance (1998) has stated that:

The main objective in privatizing some economic activities is the desire by the Government to further increase private sector participation in economy and create a more efficient allocation of resources. In this regard, port services have been turned over to investors and privatisation of communications is at an advanced stage with the creation of the STC and the turning over of postal services to investors. The investors are also being encouraged to increase their involvement in the infrastructure development, including the restructuring of the power sector. In addition, efforts are underway to streamline the regulatory environment, including the revision of the corporate law, the tax law and the investment code. Those efforts are aimed at fostering an even friendlier climate for both domestic and foreign investment.

According to the Minister of Labour (2005):



Resolution No. 60 allows for them to transfer partially or completely public enterprises to the private sector through sale or lease. The programme issued objectives, policies, methods, and regulations for the privatisation, and the focus of efforts in this domain has been to liberalize the economy from bureaucratic control and monopoly, to encourage investment, and open new horizons for the economy.

The Minister's opinions on the monopoly of the economy and the bureaucratic barriers reflect those of the researcher's opinions on public sector performance in Chapter 4. The Deputy of Minister of Finance (2002) mentioned that:

There are some issues which have not been discussed properly, such as the restructuring issue; the privatisation strategy stated "leave the restructuring to the new owners"; this issue must not be applied to all the enterprises. However, some of them need restructuring before the programme begins. Also, the strategy did not discuss how it would deal with the redundancies or overstaffing in the enterprises; that will be taken to the privatisation, and the Government must solve this problem before implementing the programme.

The previous statements agree with the researcher's opinions, that the programme is moving slowly and there are barriers such as restructuring of the enterprises and the problems of redundant employees in various enterprises. The Secretary-General of the SEC and president of the Privatisation Committee (2003) stated:

Privatisation efforts emphasize, at the beginning, the creation of the legal and institutional framework to facilitate sequential implementation of privatisation. The privatisation of port services and the corporatization of both the electricity and telecommunication sectors are now complete. The public offering of 30% of STC shares was extremely successful and was over subscribed by more than three times. Moreover, the rails privatisation, which includes constructing new railways with the participation of the private sector, is in an advanced stage. The guidelines for investors' participation in the desalination projects were approved, and we are expecting to see the first project by end of this year.

This statement emphasises the importance of preparing the legal and legislative matters before implementation of privatisation programme. This agrees with the researcher's decision when selecting regulation as one of the problems affecting implementation of privatisation. The head of the Gulf Economic Studies Centre (representing the private sector) stated that "...the Government should specify the timeframe for implementing the process,"[137].

The researcher took the opinions of these people to know their views about implementation of the programme and to emphasise if there were problems in the programme and if there is commitment for implementation of the programme. The researcher classified the papers into different types as follows:



- Some of these papers are just an explanation of the programme, expressing hopes that the process will succeed and be implemented according to the Government's plan.
- The paper written by Al-Bazai agreed with the researcher's opinions that both restructuring and human resources constituted problems in implementation of the privatisation programme. They need to study the strategy again and apply some modifications if needed.
- The third one, the opinion of the Minister of Economy and Planning, agreed with the researcher — he thought the process was moving slowly.
- The Secretary-General of the SEC released his speech after the Government sold 30% of its shares in the STC, and this process, as stated by the researcher previously, was implemented professionally. The Government's progress in liberalizing the telecommunication was good, but in general liberalizing the sector was moving slowly. In the other sectors, such as rail, water, power, and utilities, the process was moving very slowly and in some of them, such as cement manufacturing, the non-oil mining company (Ma'aden), oil shipping, banks and hotels, the Government did not take any further action in liberalizing them.
- The opinion of the Head of the Gulf Economic Studies agreed with the researcher that the process needs timeframes to implement the programme.

In general these people presented their thoughts and expressed their hopes that the process would succeed and would be implemented according to the Government's plan. There was a major contradiction between what had been officially announced for the process and what was actually going on, although these announcements came from high-level decision-makers in the Government and in the programme. The views expressed in most of these papers agreed with those of the researcher, concerning all the problems associated with the programme, such as the process moving slowly, the lack of timeframe, the role of the employees in the enterprises, implementation of restructuring and delay in liberalizing different economic activities.

### **5.15 Privatisation would have a positive effect on the Saudi economy**

Implementation of any operation or programme in the country or in the company must be carried out on the basis that some benefits are returned to them and negative outcomes are avoided. This section will add some information on the



benefits the country could obtain from implementing privatisation. Al-bishi (2001) stated: “As a result of privatisation, the contribution of the private sector to the Saudi GDP is expected to increase to 55.6% in 2004 and 69.2% in 2020,”.

Secondly, the privatisation strategy discussed possible benefits: “The programme could add value to the stock market, attract more investors and reduce the budget deficit, whether by directly decreasing direct and indirect subsidies to the public enterprises, or indirectly by providing the Government with immediate cash that could be used in financing investments in the new projects, restructuring the old ones, etc. It could create revenues, provide the investors with valuable opportunities to expand their participation and add more valuable contributions to the economic and social development of Saudi society.”

Privatisation will have a positive effect on the country, private sector and customers in different ways, as follows:

☒ The positive impact on the country as follows:

- Liberalizing different economic activities in the country will alleviate the burden on the Government’s budget and reducing the deficit.
- Focusing the Government’s attention on other sectors and services, such as education and health; this will improve and develop them.
- Developing technology and equipment in different enterprises and services.
- Developing the human resources skills in different enterprises.
- Bring to the country major companies in different fields, e.g. financial, technical, construction, etc.
- Introducing competition between different providers.

☒ The positive impact on the private sector:

- Increasing and widening investment in different activities in the country.
- Developing and improving the national private sector skills by working with international investors.
- Increasing their capabilities in managing, financing and operating different projects and services.

☒ The positive impact on the customers:

- Improving the quality of services in the country.
- Reducing prices by introducing more than one provider.
- Employing more citizens and improving their skills.

- Increasing their income.

At same time, if there were positive impact there will be a negative impact on the country.

☒ The negative impact on the country:

- Releasing these sectors and services with huge amounts of investment could affect the country, especially if they are assigned to unqualified investors.
- If the programme has not been studied properly, this could affect the employees which will create political, financial, social problems and could create instability in the country and economy.

☒ The negative impact on the local private sector:

- If they were not organized and have not established their business very well, they would not be qualified to compete in the process with the international investors that have technology, financing resources and skilled employees.
- Losing huge amounts of investment if they compete with foreign contractors.
- The foreign companies have a variety of financial resources to finance different projects, while the local contractors lack such resources; that could impact on their work in different projects.

☒ The negative impact on the employees and citizens:

- Most of the enterprises have redundant employees, especially unskilled employees; they could lose their jobs if there are no laws to protect them.
- Most of the public enterprises are supported by the Government — if they reduce support that could increase prices; quality could be lowered if the regulatory institution is weak.

Privatisation has positive and negative impacts, and each factor should be studied properly to eliminate the negative and increase the positive.

In conclusion, since the Government established the SEC there has been a commitment from them to develop and liberalize different economic activities in the country. This positively affected the process; furthermore, they issued the privatisation strategy and assigned the tasks to different organizations. This is a major step and will allow for organizing and managing the process, but the strategy needs more detailed studies to make it clearer, to eliminate all the problems and assign all the tasks that have not been finalized.



It is not limited to developing the strategy but also most of the associated laws or regulations that are helping them in implementation of the privatisation. Private sector participation, through increasing liberalization of different economic activities, implementing different regulations, establishing governor institutional system and issuing different laws, will increase investments in the country in different economic activities. These factors attract more employees, which will increase their income, lowering prices and improving quality.

#### **5.16 Assessment of the managers' opinions on the privatisation strategy**

See section 12.4 appendix D

#### **5.17 Conclusion**

The privatisation strategy defined privatisation as a process of transferring the ownership or the management of the public enterprises to the private sector, through a number of methods, including contracts for managing, operating, leasing and financing. The strategy covered different types of private and public partnership methods. The researcher thought the Government is more open and willing to liberalize different economic activities and increase the private sector participation in different public economic activities.

This change in the Government's policy will increase the efficiency and performance of different services and sectors. This will lead to major changes on the investment environment in the country and will make the entire infrastructure available for the citizens and investors with reasonable prices and good quality. Some entities (Saudi Railways, Saudia Airlines, etc.) were mismanaged by public employees, affecting their profits and quality of service. The process needs co-operation between the private and public (Government) sectors in implementation of different privatisation methods, e.g. management, leasing contracts.

These contracts have advantages and disadvantages: some of them are suitable for the country and others are not. The Government should place emphasis on monitoring and managing these contractors, otherwise different areas will be affected, including the employees and economy of the country. It needs to work with investors and provide them with different incentives, such as preparing a clear strategy, defining the responsibilities for each organization involved in the

process, preparing clear regulation, etc. This makes the process easier and faster and helps all of them in the implementation of the process.

The Government targeted almost all of the public enterprises in the privatisation programme and most of them will implement different types of privatisation methods because they have different management, financial, technical and operational problems; each enterprise will study the various options and proceed with the most suitable one. Implementation of different privatisation methods will help them in developing the management procedures and the employees' skills in handling and managing their responsibilities. It increases the financial resources and improves the technical and operational condition of the service.

In addition, implementing various business techniques is very important when upgrading the public sector infrastructure, technology, etc. This emphasised the complexity of the privatisation process; the Government should handle all these types of contract or methods professionally to maintain the different facilities or services operating on reasonable profit and prices with good quality. They have to make sure the process will be handled by more experienced employees and contractors. The Government plans to open most of its economic activities in different sectors and to implement different privatisation methods.

It could establish an ideal method or model for implementation of the programme by using more experienced advisors in different fields. This method or model can be used as a guideline when applying various privatisation methods. Financing Contracts are complicated and the Government targeted a list of facilities for privatisation; its plan is to use this type of contract in different projects, especially in infrastructure projects, because most of them have a shortage of finance.

Managing this type of contract is difficult for a newcomer country such as Saudi Arabia. Applying this type of contract smoothly and avoiding any complexity could be achieved through establishing a specialized organization or developing the Privatisation Committee which allow for designing a model to manage and monitor this type of contract. This improves planning of the process and dealing with different parties involved in the process, e.g. financiers, government, consumers and regulatory bodies. Otherwise this contract will be mismanaged and delayed, or could affect other projects in the country in the long run.



The researcher proposed assigning of planning and designing the privatisation process to an organization closer to the process, such as the Privatisation Commission. This allows for managing and monitoring the procedures of implementation of different contracts and methods of privatisation. But all of these tasks depend on the Government's method in defining, distributing and assigning all of these tasks to different organizations.

This would make the process clearer, and each organization would have specific tasks. The process needs a strong regulatory organization to protect customers and provide good quality of services with low prices. Applying any type of privatisation methods needs the studying of different matters, such as all the laws related to the process and the changing of some institutional conditions of the enterprise to assure its readiness for privatisation. The decision makers in the programme are responsible for the selection of the proper method which is most suitable for the country's condition and the existing employees in the enterprise.

They have to make sure that all the requirements for success are available. In addition, there are some factors which should be provided, such as financial, technical and legislative advisors for providing them with management, technical and other kinds of support. This could help the Government and the investors to understand each other and participate effectively in the process. Monitoring, planning and evaluation of the programme before and after implementation is one of the most important tasks that should be assigned to the PC.

This keeps the process under control and ensures that all the organizations are performing their tasks efficiently. They have to follow all the responsibilities to ensure the participants in the process are working according to the specified terms and conditions. Following clear procedures will allow them to resolve any future conflicts and barriers. All these problems could be solved by establishing clear legal procedures and regulations, and addressing all the legal matters related to the implementation of privatisation. These factors need a qualified team to review, study, negotiate, and implement the process. Therefore the privatisation process needs a qualified team to design, plan and analyse the different processes and contractors.

## **6 The process of implementation of the restructuring**

### **6.1 Introduction**

There are various public enterprises that have suffered financial, technical and managerial and other problems. The purpose of applying restructuring to enterprises is eliminating these problems (or at least minimizing them) or to divide a company into smaller units or combine their businesses together. There are other reasons for implementing the process on enterprises, such as improving efficiency, performance, development or changing the management team, etc. Usually restructuring is essential for the success of the privatisation process. There are several types of restructuring could be used such as employees (for various matters related to the employees refer to appendix E), organizational, financial, etc restructuring.

Before implementation of restructuring, the process needs the preparation of a variety of studies on the financial, technical, operational, human resources and management conditions of the enterprise; by the end of the study a plan should be in place that includes guidelines for implementation of the restructuring. This chapter studies the procedures of the Saudi Government in implementation of the restructuring policy on the PEs. The researcher presents some of the literature review to describe the experience of some countries which have implemented restructuring.

Studying the experience of these countries could guide the researcher to the ideal method for implementing restructuring. The chapter also contains a discussion of the problem associated with the process of restructuring by taking a case study as an example. Comparison between the Saudi Arabian experience and that of other countries which have implemented a restructuring policy is also presented. The views of managers have been taken in order to analyse their opinions regarding implementation of the restructuring policy in Saudi Arabia. Finally, the researcher concludes this chapter with his comments, and presents the ideal steps for implementation of the restructuring policy.

### **6.2 Objectives of implementing restructuring**

Several experts, such as Ramamunti and Raymond (1991) have discussed several objectives of implementing restructuring with privatisation, such as introducing



competition, etc. “Privatisation involves complex restructuring, such as adapting firms to the new competitive environment and redesigning the regulatory framework,” Guasch, and Spiller (1999) “The purpose of restructuring before privatisation is to break up the firm to enhance the efficiency and competitiveness of the firm or sector,”.

Jamasb (2002) stated that “The driving forces behind the electricity sector reforms in developed and developing countries have been different. In developed countries, the main aim of the reforms has been to improve the performance of relatively efficient systems. In developing and transition countries, the burden of price subsidies, low service quality, low collection rate, high network losses, and poor service coverage have meant that many governments are no longer willing or able to support the existing arrangements,”.

Etukudo (2000) listed various objectives for commercialization programmes — one of these was “restructuring and rationalizing the public enterprises to make them more efficient and cost conscious,”. Each country has its own objectives for implementation of restructuring; some look for increased competitiveness, efficiency and developing the quality of the sector or the services. Hence most of the developed and developing countries have issued a restructuring policy as part of the privatisation programme, while other countries have issued an independent policy. This makes implementation of the restructuring policy clear for all people involved in the process, such as employees, investors, decision makers, etc.

Most of the developed and developing countries consider the restructuring as an operation to upgrade the financial, technical and human resources conditions of the enterprise, making them more efficient and able to play a more efficient role in the economy in different fields. This makes implementation of the restructuring essential before proceeding with privatisation. The Privatisation Strategy in Saudi Arabia outlined the following:

The issue of restructuring public enterprises or projects that are to be privatized, is generally raised before the privatisation process is implemented, and it is generally preferred to leave the main restructuring issues to the new owners. However, it is sometimes not possible to avoid restructuring, as there may be large liabilities that adversely affect the project’s value, and it may be necessary to split up the enterprise in order to improve the overall structure of the sector.

Following the establishment of these enterprises, the Government spent a huge amount of money developing the technical, operational and financial conditions; its intention was to gain profit and revenue. It must study these enterprises in greater depth and investigate each one independently to understand their problems, if it does not want to lose the benefits and profits and be forced to sell them at low prices. The above studies indicated that each country had implemented the restructuring on public enterprises for different reasons.

The purpose of implementation of the restructuring differs from one country to the next — these reasons include: reducing losses and large debts; applying various financial plans for different businesses in the enterprise; improving the poor quality, performance and productivity of the services or sector; improving management skills; reducing the number of redundant employees. In addition, there were other objectives or goals for restructuring, such as improving the efficiency, performance and planning of these entities for long-term investment in a more competitive market. Privatisation and restructuring are two operations working in parallel, and the success of each one depends on the method of the other's implementation.

### **6.3 Responsibilities for implementation of the restructuring policy**

The Privatisation Strategy assigned the responsibilities for implementation of the restructuring process in Saudi Arabia to the following organizations:

1. Royal Court, responsible for approving implementation of privatisation with respect to matters that may obstruct implementation of the programme, such as issues related to restructuring.
2. The Competent Government Agency, under the supervision of the Privatisation Committee. Its tasks can be classified as follows:
  - Managing the programme for privatisation, in cooperation with other government agencies, as deemed necessary by the Privatisation Committee.
  - Managing implementation of the programme involves the following elements, by way of example: implementing steps for restructuring the enterprise.

### **6.4 Objectives and tools of implementing the restructuring types**

Investigating the Strategy allowed the researcher to summarize some comments:



- It discusses three types restructuring (financial, employees and technical) but it does not discuss the objective for implementation of these types.
- There were no guidelines to be considered in applying the restructuring policy. As an example, the objectives of implementing the manpower restructuring is increasing their productivity, efficiency, developing the management skills, etc. These objectives could be used as guidelines in implementing the process or preparing another policy for other enterprises.

Further, there was no discussion of the tools that would be used for implementing any of these types. Implementation of the restructuring policy is related to several items, such as implementing commercialization programmes (as mentioned by Etukudo in section 6.2) on the enterprises, and the process needs management, financial and operational tools to implement them on the enterprise to make them more efficient. As an example, from the previous chapters the researcher found those enterprises did not consider all the matters related to applying the various financial tools (e.g. methods of collecting the revenues or debt). The researcher interpreted that this was because most of these enterprises are supported financially.

Here the researcher summarizes some of the tools that could be used in implementation of the financial restructuring as follows:

- First, collection of receivables: most of the enterprises have huge amounts of money that have not been paid by the other public sector organizations. Collecting and paying this money will improve the financial situation of these entities, and huge amounts of cash will be deposited in their accounts. This step must be taken before implementation of privatisation. The Government could prepare a timetable and methods of collection. Collecting the receivables allows development and improvement of the financial condition of the enterprise.
- Second, collection of information about debts of the enterprise or of other government organization: this is one of the important tools which should be used in the financial restructuring. After collecting the data on the total debts, the enterprise can negotiate with the lenders such as governmental funds or banks so that they can be scheduled. Most of the countries in financial restructuring tried to minimize the debt to free the financial condition of the enterprise.

- Evaluation of the enterprise assets: most of the enterprises have different assets, such as buildings, land, shares in different companies, cars, equipment, etc. that should be evaluated. This allows the enterprise to evaluate the condition of their entities and to identify those that could be utilized. Also they should identify the entities that could be sold; for example, if the enterprise did not need some of their land, they are able to sell it at auction. The cash raised through these actions could improve their financial condition.
- Increasing collection of cash from different resources: from the above items the restructuring team should search for ways of increasing the cash that could be made available in different government organizations. This cash allows for developing and improving the condition of the enterprise.
- Minimizing of the critical financial problems: all these objectives or tools can be used as guidelines for the management team.

The use of these tools makes the process more understandable. These tools or other could be used as objectives for restructuring the enterprise or the sector; it makes the aim of this operation easier and clearer and speeds up the process.

## **6.5 Restructuring conditions**

There are some conditions for the success of implementation of the restructuring as stated by [171]. They listed the most important conditions for effective restructuring in *Restructuring Banks and Enterprises* for the World Bank as follows:

- The ability and willingness of governments to impose budget constraints on loss-making banks and enterprises to promote the larger objectives of macroeconomic stabilization, fiscal balance and economic growth.
- The pace of systemic transformation in the economy, namely speed of bank and enterprise privatisation process to improve management, governance and overall performance.
- The legal and regulatory frameworks, institutional capacity, supervising banks and financial sector infrastructure to improve the enabling environment.
- Centralized and decentralized solutions to work out loan portfolios, restructure loss-making enterprises and develop the human capital and market conditions needed for a competitive banking environment.



This study highlighted some essential information for implementation of the restructuring policy as follows: Implementation of restructuring requires preparatory conditions; Hard budget constraints should be implemented on the PE; Improving of the institutional situation in terms of the legal and regulatory framework of the enterprise will speed up the privatisation; Speeding up the liberalization of the economy will help in improving the whole management system; Increasing the competition environment can be created through restructuring of the enterprise, and; Restructuring helps in allocation and utilization of the resources.

This information can be used as guidelines for the process, and the above factors indicated that there are complementary roles of the economic reform of the country and restructuring of the enterprise. These lead the researcher to describe in the next section the elements which would help in the enterprise reform.

#### **6.6 Elements contributing to the success of the reform programme**

The World Bank Report *Improving State Enterprise Performance* by Shirley [172] presented some elements of all enterprise reforms such as follows:

- Reducing the direct and indirect financial subsidies from government to SOEs.
- Introducing into SOEs reorganization attributes of the modern corporation, for the purpose of achieving commercial objectives.
- Reforming the financial sector, including upgrading prudential regulations.
- Eliminating the non-core business from the SOEs.
- Revision of the state functions through creation of an ownership neutral policy regulatory framework for commercial enterprises, removing distortions.
- Introducing competition from the private sector.
- Separating the role of owners (government) from the day-to-day management of SOEs while minimizing the number of bureaucratic layers between the company and the government.

Another study specifies the principal aspects of the reform of the institutional framework as mentioned by Shirley [173]; the main aspect defines goals for SOEs, which can be transformed into measurable and manageable targets. These elements guided the researcher to different problems in the implementing of the

restructuring policy in different public enterprises in Saudi Arabia; these will be discussed in more detail in the following sections.

In conclusion, the Saudi Government implemented some of these conditions and elements, such as liberalization of some of the economic activities, while other conditions, such as hard budget constraints on the PEs, were not implemented, for example, the SEC1 had a financial problem in August 2006. However, this company implemented restructuring in 2000 but the Government supported them financially with \$530 million to solve the problem of their failure in different regions and expand their area of coverage. This is one of the example could be used as an evidence on problems of implementation privatisation programme,

Other conditions, such as creating and introducing the competition environment with the private sector in various sectors were not implemented. As an example SEC implemented restructuring and the Government did not restructure the sector to allow them to split their tasks into different businesses — generation, distribution and transmission. The Saudi market is still monopolized by SEC and there is no competition.

## **6.7 Types of restructuring and their tasks that could be implemented**

See Section 11.5 Appendix E

## **6.8 Sequence of implementation of the restructuring process**

There are some countries implemented several types of the restructuring or reform. The process needs sequencing as Jefferson and Su (2006) confirmed:

China's enterprise reform has spanned four interrelated stages. The first is the entry of large numbers of new non-state enterprises. The second is the reform of managerial control rights within established systems of public ownership, e.g. strengthening of managerial incentives through the contract responsibility system. The third is the change in asset structures resulting from non-state investment in the state sector. The last stage of ownership change is the outright conversion of enterprises, usually from state or collective ownership to some other formal ownership.

Also Aghion and Burgess (1994) emphasised the sequencing of the process: "Restructuring consists of four steps, namely commercialization, unbundling, privatisation and real adjustment of the firms,".



The purpose of this section is to show there are requirements for implementation of restructuring process as follows: first, preparing a plan that should include all restructuring types that could be used in the process; second, sequencing these types; third, the implementation method for each type. These papers show the experiences of various countries and highlighted their implementation of full restructuring required preparatory steps: some of them introduced non-state enterprises and reform of managerial control rights, while others introduced commercialization as an integral part of restructuring. Selection of these methods depends on the country's requirements and condition.

Guasch and Spiller (1999) discussed the following steps that could be considered for implementation of restructuring on the enterprise: Identifying stages of productive and service activities; Assessing economies of scope and scale across different stages of the operation; Identifying the activities in production where they operate as a monopoly, and the stages of production where the enterprise operates in a competitive market. Identifying possible fracture lines, horizontal and vertical; Identifying productive or service activities that could be privatized, subcontracted, concessionary, leased, or open to external (private) parties; Identifying observable variables related to performance of the labour and managerial input; evaluating the options to obtain information relevant to monitoring.

They also added: Establishing the performance measures for each stage of production; Identifying and evaluating the institutional and contractual arrangements among the different units of the enterprise for the segment remaining in government hands; Designing incentive schemes linking performance with compensation; Considering building institutions within the enterprise; Identifying strategies to allow the Government to use hard budget constraints; Assessing the market demand, trends and elasticity; Evaluating the tradeoffs among different modes of structure; Assessing the impact of restructuring reforms on prices, outputs, investment and rates of returns; Imposing limits on cross-ownership, that is, on ownership of several business units, and; Establishing a regulatory entity with jurisdiction over enforcement and the resolution of disputes, and over any segment of the enterprise that is not subject to competition.

These steps emphasised the complexity of implementation restructuring, and the following matters should be considered before each process commences:

- Tasks or responsibilities should be provided to the restructuring team.
- The process needs a team with enough knowledge and experience.
- There are strong relation between process of implementation of restructuring and privatisation. Success of the privatisation process depends on the restructuring method in any type of business.
- The restructuring process should consider other matters in the enterprise or sector, such as the prices, legal issues, market condition, performance, competition and productivity of the enterprise.
- Implementation of the restructuring could affect all the above items.
- There are relationships between the restructuring process and regulation.
- The implementation methods of the restructuring should be considered.

Also, implementation of the restructuring is related to designing incentive schemes linking performance with compensation: this indicates the operation should consider the effect on the employees and what types of incentives and compensation could be presented to them. This matter is already covered in Chapter Six. The process should specify and evaluate the institutional structure and contractual arrangements between the different departments of the enterprise or the sector, as some of parts could remain in government hands.

These studies indicated the complexity of implementing restructuring on an enterprise, and the difficulties enterprises employees could face in dealing with the process. The financial, institutional, human resources, prices, profits, revenue, and ownership transfer aspects of the process all contribute to this complexity. Information must be gathered about the enterprise, methods of monitoring and managing the process, and the market and investment environment should all be studied. In addition, the process includes establishing a regulatory framework, legislation institution for the enterprise, studying productivity of the enterprise and employees, etc.

Study of these papers allowed the researcher to evaluate the Saudi Arabian policy and their experiences of its implementation and to conclude the following:



- The policy lacked a huge amount of information about implementation of restructuring, — it discussed limited types of restructuring, but no information was given about the tasks included in the process.
- The process needs the preparation of detailed studies and readiness of the enterprise — the policy did not emphasise such plans, preparation or sequencing.
- The restructuring policy needs guidelines prepared for the implementation.
- This affects implementation methods of some of the public enterprises.

The next section will study some of the restructuring tasks.

### **6.9 Criteria for selection of the enterprise for restructuring**

Preparing the strategy lets the Government know if the enterprise or the sector needs restructuring or not. Before implementation of the process, the restructuring team should specify some criteria for the process to help them. These criteria could serve as guidelines in implementation of the process and as an indicator to check the financial, management, technical and other conditions of the enterprise. The restructuring strategy should specify all the criteria, or at least who will prepare them; lacking these criteria could be one of the factors affecting implementation of the restructuring process. Specifying some criteria allows the restructuring team, in the primary stage, to establish whether the enterprise needs the process or not.

Some criteria could be prepared, such as: The enterprise's loss-making activities in different businesses; Large debts and low amount of available capital; Low performance, productivity and efficiency; Large proportion of the investment not utilized by the enterprise in the market; Barriers facing the enterprise in the market, such as developing the legal and institutional system of the enterprise; Low annual revenues from the operation of the enterprise; Availability of the redundant employees in the enterprise.

Implementation of these criteria requires various procedures such as:

- Identifying the major problems that the enterprise could face in achieving these criteria in the present and future.
- Analyzing all the problems related to the financial, technical, operational, etc. situation of the enterprise. A report on their condition should be prepared.

- The process deals with more than partners, so participating the employees, customers, etc. is very important in identifying problems within the enterprise.
- Issuing advice about the types of restructuring could be implemented. Finally, giving some recommendations concerning whether to restructure or not.

### **6.10 Did the public enterprises need restructuring in Saudi Arabia?**

Studying the financial, operational, etc condition of the enterprise allows the management team to know if the enterprise or the sector needs restructuring or not. The Saudi Government listed more than twenty services and sectors to be taken to privatisation. Sun and Tong (2003) confirmed the success of China in implementing several reform programmes: “Twenty years of economic reform in China have had marked success in expanding growth and productivity. One major component of this huge economic restructuring process is the reform of SOEs,”. Cordesman (2003) emphasised the need for diversity in the Saudi economy, which is:

...facing a huge public deficit in the budget, with government expenditure higher than revenue. There is a broad consensus within the Saudi ruling elite, Saudi technocrats and educators, and Saudi businessmen and professionals that the nation needs to diversify its economy, to reduce dependence on the petroleum sector, to solve the problems in managing and financing the Saudi budget, and find ways of limiting the Government’s foreign and domestic debt. There is consensus that the Kingdom truly needs to make economic reforms work, and it can only do so by strengthening the private sector, finding other sources of investment, and encouraging repatriation of capital.

There are some factors for success of the privatisation one of them is implementation of restructuring as emphasised by Al-Baiz (2000): “There are steps that can be taken to make privatisation succeed in Saudi Arabia; one of these steps is the need for implementation of restructuring on the enterprises targeted for privatisation,”. A paper by Sager (2004) emphasises the necessity of implementing comprehensive restructuring in Saudi Arabia:

There is no doubt that reform constitutes a master solution to the challenges and problems that face them to yield the desired results, reforms should be grounded in the following principles. One of these principles is that reforms should be a comprehensive, well-wrought and objectives-based process. The proposed reforms reflect the demands and ambitions of the Saudi people.



Table 6.1 shows the budget deficit in Saudi Arabia from 1984 to 1997. This deficit reached \$25.55 billion in 1990, rising to \$29.79 billion in 1991; the major cause of these figures was the Government's emphasis on keeping most of the economic activities in the public sector under their control and implementing limited procedures to liberalize the economy away from the oil sector.

Table 6:1 Budget deficit (billions \$) Al-Khateeb, (2000)

Year	Revenue	Expenditure	Deficit	Year	Revenue	Expenditure	Deficit
1984	55.04	61.39	6.35	1991	41.25	71.04	29.79
1985	45.73	57.71	11.97	1992	43.17	62.00	18.83
1986	35.63	49.07	13.44	1993	44.11	54.80	10.69
1987	20.40	36.67	16.27	1994	37.71	43.68	5.97
1988	27.68	35.97	8.29	1995	34.40	43.68	9.28
1989	22.56	39.87	17.31	1996	39.07	46.37	7.31
1990	30.56	56.11	25.55	1997	47.76	52.83	5.07

This table indicates that from 1984 to 1997 the Saudi government expenditure was higher than revenue, which led to a deficit. The revenue in 1990 was 30.56 billion while the expenditure was 56.11 billion, which means the expenditure almost doubled. Table 6.2 shows the public debt in the country, starting from 1994 up to 2003: it started at 76% in 1994, then jumped to 116% in 1998, but dropped to 95% in 2003.

Table 6:2 Saudi Arabia's percentage of debt to GDP (billion \$) Samba Financial Group, (2003).

Year	GDP	Government Debt	Percent	Year	GDP	Government Debt	Percent
1994	120.01	91.2	76%	1999	160.96	166.67	104%
1995	127.64	105.87	83%	2000	188.44	164.27	87%
1996	157053	132.27	84%	2001	186.24	170.67	92%
1997	164.77	143.47	87%	2002	185.33	173.33	94%
1998	145.77	169.07	116%	2003	186.93	177.6	95%

All the studies in Chapter Four and the above studies indicated that there are several problems in the financial, management, workforce and technical areas in these enterprises. The researcher links all these problems to the following:

- Very low performance, productivity, efficiency and operating capabilities in several economic activities in the public sector.
- Very large cumulative losses in different enterprises for long time.
- Overstaffing in most of the administrative jobs in most public enterprises.
- Delay in performing their duties which impacts on the country and citizens.
- The management in these enterprises lacked methods of managing and operating different tasks in these enterprises.
- The management team lacked marketing skills for these services.

In conclusion, from the above problems and studies, the researcher found it necessary to implement multiple types of restructuring, not solely limited to the one mentioned in the strategy, on different PEs. Most of the enterprises need comprehensive restructuring which will help in rectifying various problems in the enterprises. This indicates that the process will require a lot of work, such as preparing studies for each enterprise, collecting information and implementation of the studies. The Saudi Government should take implementation of the restructuring seriously, allowing them to benefit through increased investment and revenues and attracting more employees.

#### **6.11 Steps of restructuring and the proposed timing for implementation**

The previous section emphasised the necessity of implementation of restructuring on various enterprises. The process needs preparation of various procedures and steps. Implementation of restructuring needs preparation of the steps in the operation: the purpose of this process is to help the government and the restructuring team to plan and implement the process. The process can be divided into the following steps: Assigning the team for managing and supervising the restructuring process; Selecting the national or international advisor office to study and manage the process;

Also, preparing a plan which could include economic, structure and organization of the management and legal and legislative issues; Evaluation of the plan by



taking the opinions of different experts in economy, human resources, management, organization, financial and technical areas, etc; Negotiation of the restructuring process with all parties involved in the process, such as employees, etc. Submission of a full study to gain approval from the decision-makers for implementation of the plan; Preparation of a timeframe for implementation (as expedient as possible); Proceeding in implementation of the plan; Annual evaluation of the restructuring after implementation, and what type of correction procedures can be taken if needed. The steps are summarized in Figure 6.1:

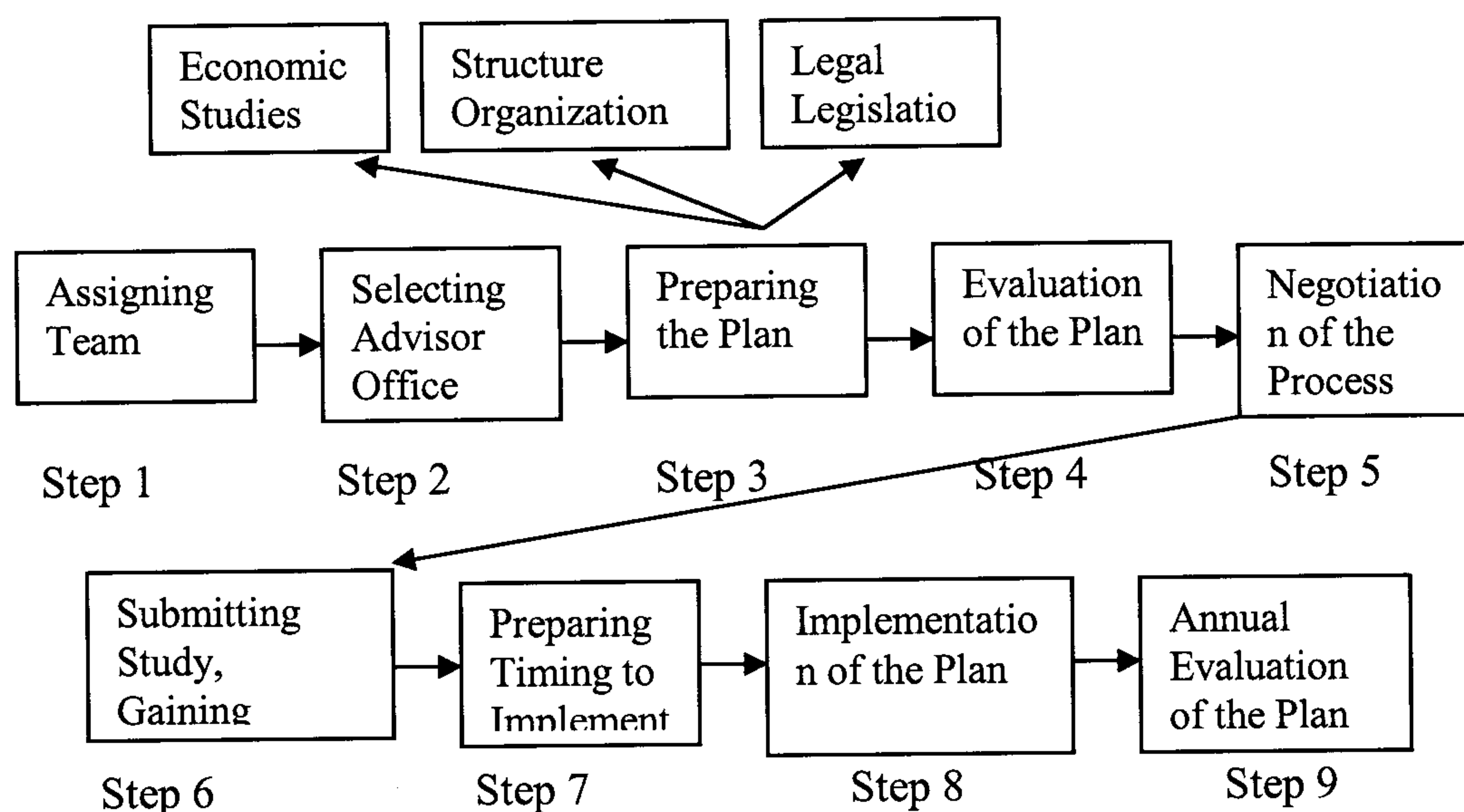


Figure 6:1 Steps of implementation of the restructuring policy.

The time of implementation of the restructuring should be considered, as this could be one of the barriers facing the restructuring in Saudi Arabia. The Government should select the proper time for implementation of the process Guasch and Spiller emphasised this point: “Most importantly, actions taken prior to privatisation can reduce the regulatory burden and induce more efficient outcomes. In particular, restructuring — that is, break up — of the enterprise prior to privatisation ought to be an essential component of the process,”[168].

The restructuring strategy should discuss the proper time for implementation of the restructuring. In this section the researcher classified the time of implementation of the process into three periods:

1. Restructuring before implementation of the privatisation.
2. Restructuring during implementation of the privatisation.

3. Restructuring after implementation of the privatisation (which can be implemented by the new owner).

There are advantages and disadvantages for each of these options, as follows:

- The advantages of the first option are that it will make the company more attractive for the private sector and increase the government revenue. It will create and open more business for the company. The disadvantage of this option is that it could delay implementation of the privatisation and needs financial resources.
- The second option goes in parallel with the privatisation. The disadvantage of this option is that it would lengthen the process and the two operations could affect each other; for example, some of the information could be missing, some operations depend on each other, etc.
- The advantages of the third option are that it would save the Government budget and speed up the process, while the disadvantages of this option are that it could mean selling off the government entities at low prices, and the employees could be affected unless new laws were issued to protect them.
- The first option is used by most of the developing countries because it increases government revenues, makes the entities more attractive for the investors and separates the company into small business groups that attract more employees and investment; this option allows the Government to protect the company employees and improve the enterprise financially, operationally, administratively, etc. This option may be the most appropriate restructuring type to be used by the Saudi Government.

#### **6.12 The financial resources for implementation of the restructuring**

Implementation of the restructuring on the enterprise needs financial resources to improve the condition of the enterprise in different fields, pay the compensation to the employees, etc. The privatisation strategy did not allude to the financial resources or how these could be provided. The financial resources affected multi-privatisation programmes in different developing countries, and delayed the process because the approval for such a process involves a long procedure. In Saudi Arabia, the same thing could happen: the process will entail a long procedure requiring many approvals.

It is therefore recommended that a budget or fund be assigned to provide the financial resources for restructuring of the enterprise. This fund could be called



Restructuring Fund. It should be managed and used for implementation of the restructuring process. The Government should spend from this fund after preparing a schedule and timetable prepared by the restructuring team. Spending from this fund should be done after reviewing the development in the schedule and in the timetable; that would allow for comparison between before and after implementation of restructuring.

This will be an incentive for the restructuring team to speed up and study the restructuring carefully. There are several sources for this fund:

- Ministry of Finance.
- Loan from one of the governmental funds.
- Could be deducted from the revenue of the enterprise after sale.
- Loan from the private banks.

The Government should prepare a study on how to obtain, spend and utilize this fund, and it should consider the following points:

1. Minimizing the cost of the restructuring to save their budget and avoid loans.
2. Selecting a reasonable and easy restructuring plan without delay.
3. Searching for a method that will increase the revenues and profits.
4. Avoiding any deep restructuring which will not be completed.
5. Taking the Privatisation Committee's approval on the plan.
6. Selecting suitable privatisation methods which will reduce the restructuring.
7. Selecting a clear and easy evaluation process for the enterprise after implementation of restructuring; this makes the task on the evaluation team easier, otherwise the process will be lengthened or delayed.

### **6.13 Views of the managers regarding the restructuring strategy**

See Section 11.6 Appendix F

### **6.14 Case Study: Saudi Electricity Company (SEC1)**

See Section 11.7 Appendix G

### **6.15 The proposed sequence for implementation of the restructuring process**

This section summarizes guidelines for the sequencing of implementation of restructuring, which could be used in several enterprises or sectors in Saudi Arabia. The sequence depends on the condition of the enterprise. These steps are shown in Figure 6.2 and described in more detail below in the following steps:

❖ Studying general matters in the company — this could include matters such as investigating the production stage of the company; Methods of the company in presenting their final services and product to the customers; Methods of developing the production and the services; Identifying the barriers facing separate businesses within the company and; Studying the market requirements for the company's services.

❖ Implementing of the corporatization: — this could include studying factors such as researching customer requirements; Orientating the company to the market and customer needs; Establishing the business plan for the company, such as specifying the types of market and products, assessing the existing business in the company, and identifying the effective competition policy; Establishing a framework for improving and developing the structure of the management in terms of marketing and customers needs. This step is one of the steps for upgrading the company management, introducing management techniques for improving the business of the company.

❖ This step includes introducing a variety of techniques and units that will improve the physical appearance of the company in the market; Checking the readiness of the company for market needs in terms of operational, organizational and technical fields and all the other systems. This helps them to verify the enterprise's problems in these fields and allows them to apply the restructuring work at the same time; Decentralizing the different businesses of the enterprise or the sector activities to help in liberalizing the electricity sector; Lastly, developing the employees' skills in several fields, such as accounting, marketing, planning.

❖ Preparing the legal and legislative matters — this includes:

Different laws could be issued for organizing and managing the legal matters in the sector and the enterprise business in different fields, including the following:

- Issuing Electricity Law.
- Issuing the Companies law.
- Establishing the foreign ownership in the sector.
- Establishing the private sector or the citizens' ownership.
- Establishing joint ventures in this type of business.
- This includes all the laws needed to keep the Government, Customers, investors' rights.



❖ Establishing the Regulatory body — this step requires various processes such as: Planning and designing the regulatory framework; Defining the regulatory role in the process; Establishing the regulatory structure framework; Analyzing and implementing the required changes in the regulatory framework if needed; Establishing the electricity tariff; Finally, organizing the relation between the company and the customers from one side and between the company and the investors on the other side. The above two steps are more related to each other: the first concerns developing and improving the legal conditions around the enterprise and the sector while the second step concerns developing the regulation and regulatory environment in the sector.

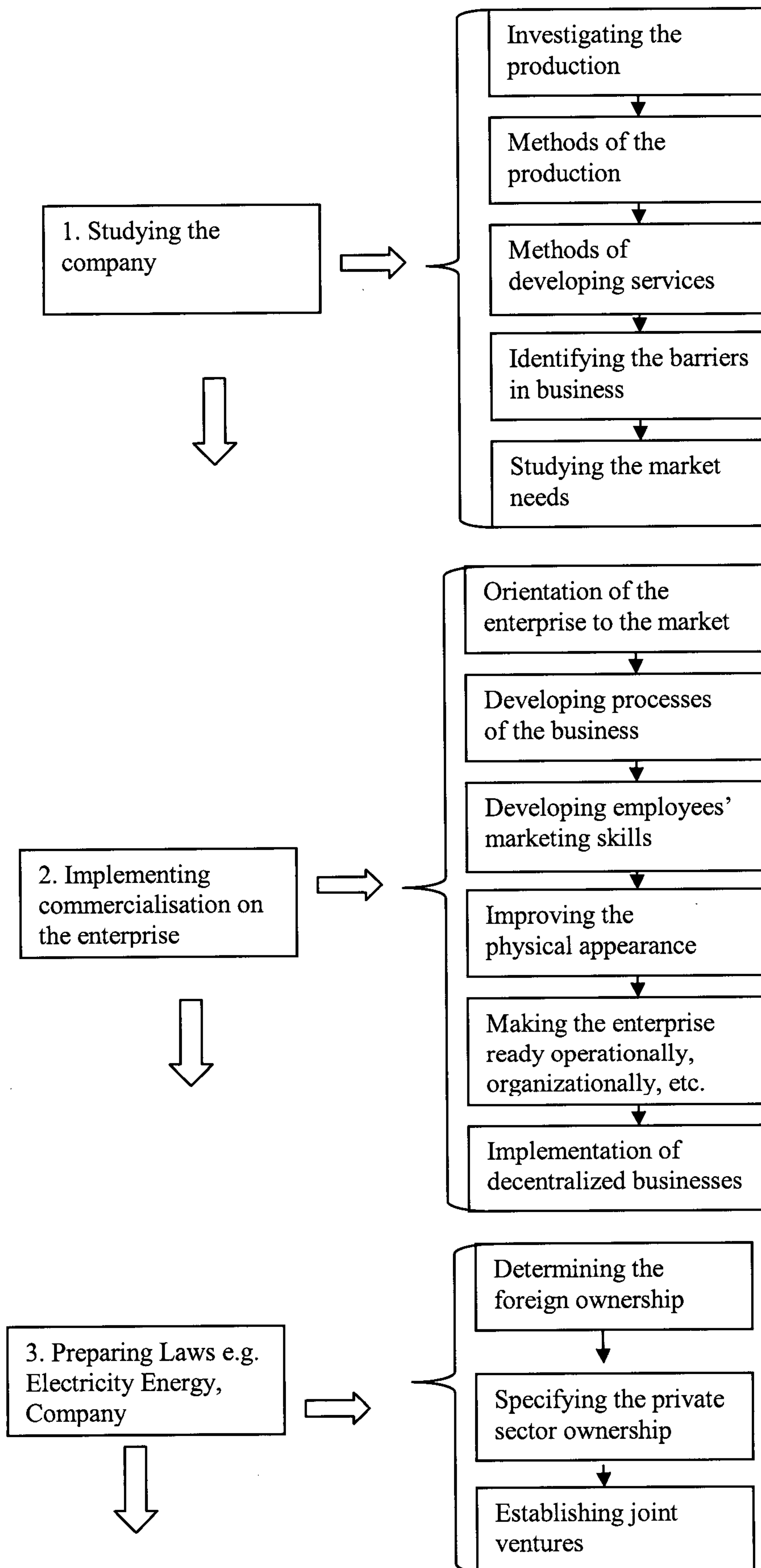
❖ Applying partial restructuring — partial restructuring would help the enterprise in implementing step by step restructuring; that could reduce the dangers of the process instead of fully restructuring and minimize mistakes in the process, as happened in SEC. Also, this step could help in separation of the company into different businesses. In the first step, they could separate the generation process, and then undertake distribution, transmission, marketing, etc in the next step. They have to study the proper separation of the company business.

❖ Implementation of full restructuring — after they have gained experience in partial restructuring they could proceed with implementing full restructuring. If they want to avoid the dangers of the process but are not sure about how successful the process will be, they could implement full restructuring on a step-by-step basis.

❖ Implement partial privatisation — this includes the following:

- Transferring some of the company services into the private sector.
- They should establish the regulatory framework before this step and manage it with qualified employees to help protect the employees and customers.

❖ The last step is implementation of full privatisation — in this step the company could transfer most or all of the services to the private sector. This could alleviate the burden on the company budget and improve the service or the final product of the company. Implementation of full privatisation needs a strong regulatory framework, strong stock market and banking system and stable economy; each country should make sure all these factors are available and working efficiently.





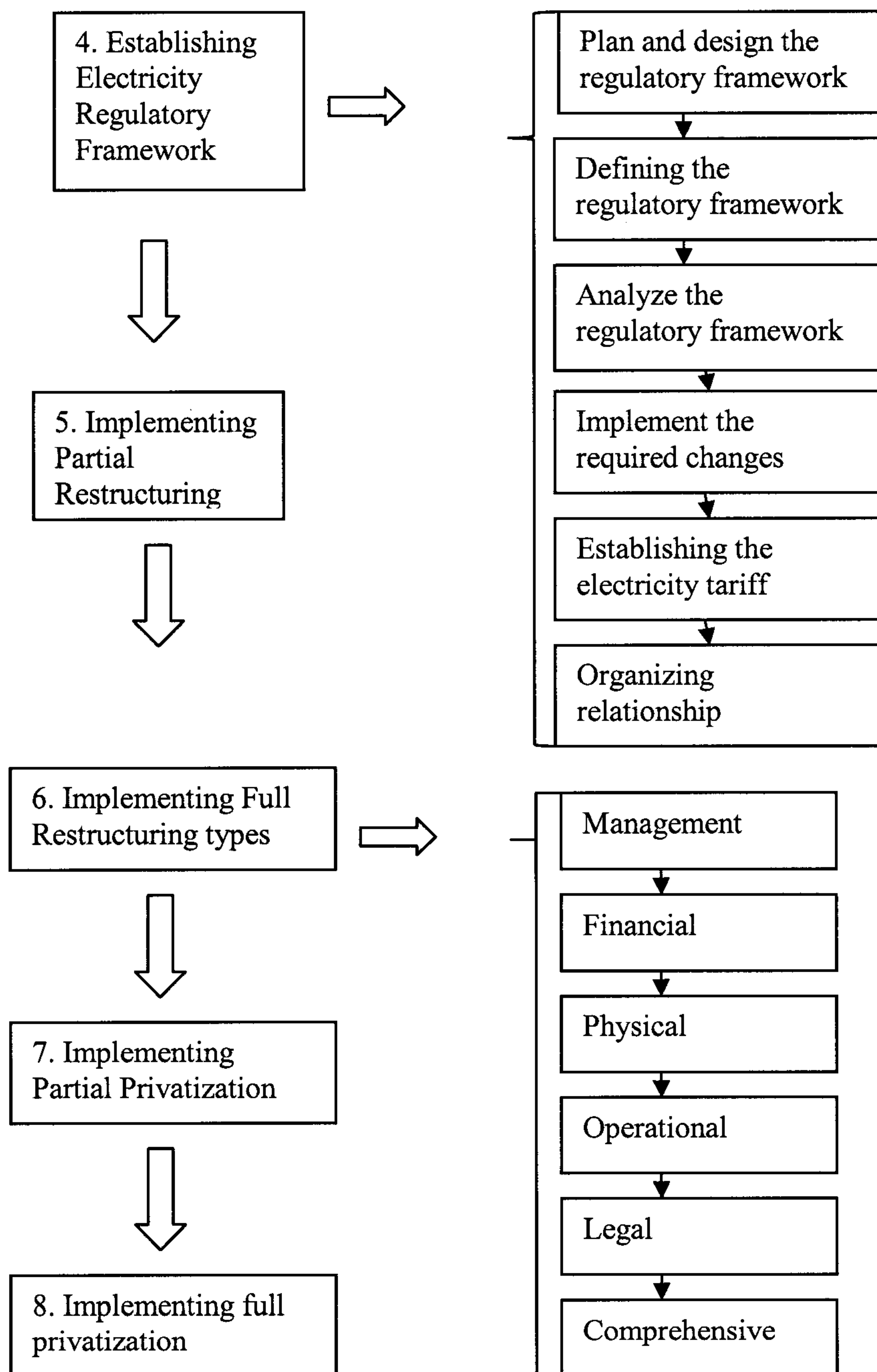


Figure 6:2 The proposed framework for sequencing of the restructuring.

### 6.16 The proposed framework for implementation of restructuring

The experience of different developing countries demonstrated how the success of privatisation depended on implementation of the restructuring process. Saudi Arabia issued a Privatisation Strategy, but there was not enough information about implementation of the restructuring policy. It lacked different matters related to implementation of the process, such as criteria, types, timing, phasing,

etc. In this section the researcher proposes a framework for implementation of the restructuring policy.

In this initial model, the researcher tried to establish a relationship between this model and the main model, which will be implemented on the Privatisation Policy as it will be discussed in more detail in chapter Nine. This framework will be divided in the same way as the main one, into three levels and will be assigned to the same organizations involved in the main framework as follows:

- Decision-making Level — Supreme Economic Council
- Planning and Management Level — Privatisation Committee.
- Implementation Level — The Targeted Public Enterprises.

All the restructuring tasks could be assigned to the above organizations. This could help them in achieving smooth implementation of the process and speed the restructuring policy. This framework divided the tasks as shown in Figure 6.3.

**☒ Decision-Making Level could handle the following tasks such as:**

- Providing the financial resources for implementation of the restructuring programme. The process needs the provision of financial resources to help rectify the enterprise's condition in different fields. Availability of the cash would help them to improve the enterprise condition. They have to consider spending as little as possible on the process, because implementation could be costly.
- These enterprises have a major impact on the economy or on the employees, so implementation of the restructuring on different enterprises needs approval from the highest authority in the country. This level approves implementation of the restructuring on the sector or on the enterprise.

**☒ The Planning and Management Level could handle the following tasks:**

Determining the criteria for selection of the enterprises for restructuring such as loss-making in different businesses of the enterprise activities; Huge amount of debt and low amount of capital available; Low performance, productivity and efficiency; Huge amount of investment not utilized by the enterprise in the market; Barriers facing the enterprise in the market, such as developing the legal and the institutional system of the enterprise; Low annual revenues from the operation of the enterprise; Lastly, the large problem of redundant employees in the enterprise.



These criteria could be different from one enterprise to another, depending on the type of the enterprise and the problems in the enterprise, but in general the researcher has listed them as a guide. In addition there are some requirements from the country for implementation of restructuring that should be considered during preparation of the criteria. These criteria should be prepared by a qualified team after fully studying the condition of the enterprise and the country and avoiding any possible conflict between the country and the enterprise requirements.

Determining the objectives of implementation of the process such as reducing the major losses and the huge amount of debt; Implementing the financial plan on different businesses; Improving the quality, performance and productivity of the services; Improving the management skills; Reducing the number of redundant employees and; Separating the sector or the enterprise to small groups of business. These objectives should be prepared before proceeding with implementation of the restructuring process; they have to make sure these objectives agree with the specified criteria. The objectives should be reasonable and in accordance with the country's strategy for restructuring. This would allow them to evaluate each enterprise performance after implementation of restructuring and privatisation to know if the restructuring plan was achieved or not. The team should make sure the plan is clear and workable.

- Specifying the activities targeted for restructuring in the enterprise.

Before applying the restructuring policy on the enterprise, they have to select the activities which could be privatized. Participation of the investors in these economic activities is very important, so they should select the enterprise which is more oriented to the market and could be attractive for them.

- Specifying the tasks for the restructuring team — for example: Reducing unnecessary management layers in the organization; Implementation of some skills to monitor and manage the process; Minimizing lengthy procedures in implementation of the process; Studying and producing the financial, economic, labour and other reports which reflect the existing condition of the enterprise; Discussing the programme with different departments in the government or in the private sector; Visiting and checking the facilities and equipment of the enterprise and; Preparing a timetable for implementation of the process.

The process also includes: eliminating direct and indirect subsidies to public enterprise; defining the objectives of implementing each type of restructuring; making comparisons before and after restructuring in terms of performance, efficiency, productivity, prices. This allows modifying the programme if it has not achieved the objective or goals of restructuring; Determining the major problems in the public enterprise; this can be found by counting the losses, efficiency, etc. and studying how to stop these losses and improve efficiency; Lastly, giving recommendations on how to implement different types of restructuring.

Selection of the management team should be according to specific criteria concerning their experience and qualifications for handling this task.

- Specifying the criteria for selecting the advisor's office.

These criteria depend on the type of problems each enterprise has, so they must consider that before proceeding with selecting the advisor's office. Some of the enterprises have different problems (financial, operational, technical, workforce) and would benefit from implementing comprehensive restructuring. Hence, they have to look for experience of the office in this field/s. They have to list their requirements for the office. The cost and the time required for the study should be considered in selection of the advisor.

- Approving the timeframe and steps of the restructuring programme.

They have to consider that there is no conflict between different tasks, the process should be sequenced appropriately and proceed according to the timeframe.

- Covering the enterprise's problems.

The study should consider all the problems in the enterprise — before implementation of the process the restructuring team should submit a full study on the problems of the enterprise in order to obtain approval on the types of restructuring that could be implemented. This makes the process clearer and the time needed for implementation faster.

- Monitoring and supervising of the restructuring programme.

This keeps the process under control and avoids any failure that could be caused by the enterprise employees during implementation of the programme. To keep this process active, the Privatisation Committee could ask for periodical reports to improve supervision of the process. This task needs the implementation of



different techniques in management and quality to help the management team in managing the process.

- Making an annual evaluation of the process.

The evaluation should cover all the restructuring matters that have been implemented on the enterprise. Missing one of them could affect other parts of the process or the privatisation.

- Developing implementation of the process.

After evaluation of the process, if they found any action requiring change they have to fix things rapidly, otherwise this could affect the process.

All the above points indicate that this task needs more experienced organization in this field. To ensure that this task is performed professionally, the researcher assigned this task to the Privatisation Committee.

#### **☒ The Targeted Public Enterprises tasks:**

- Determining the appropriate time for implementation of the restructuring.

They have to consider that restructuring should occur before privatisation. There are alternative methods of implementing the process, each with advantages and disadvantages; the Government should select the appropriate time to avoid any negative impact.

- Considering dividing implementation of the process into phases.

They have to prepare the phases for each step; this allows the management team to monitor and manage each step independently. They have to make each phase clear, which will minimize the impact on each phase. This method organizes the process between different departments in the organization.

- Preparing the restructuring studies.

Preparing these studies allows them and all the organizations involved in the restructuring to accept or reject the process, so they could not take any decision on accepting or refusing the process unless they have prepared complete studies covering all fields. These studies could be prepared by an advisor, so they need to hire professional office/s in different fields. This helps them when taking important decisions on whether to proceed or not.

- Managing and implementing the restructuring programme.

Managing of the process needs the selection of a professional team with more experience. The experience of the team should be in different fields and matters

such as methods of implementation of the restructuring, project and financial management, etc. This item needs monitoring of the process from the beginning, by preparing studies up to implementation of the process.

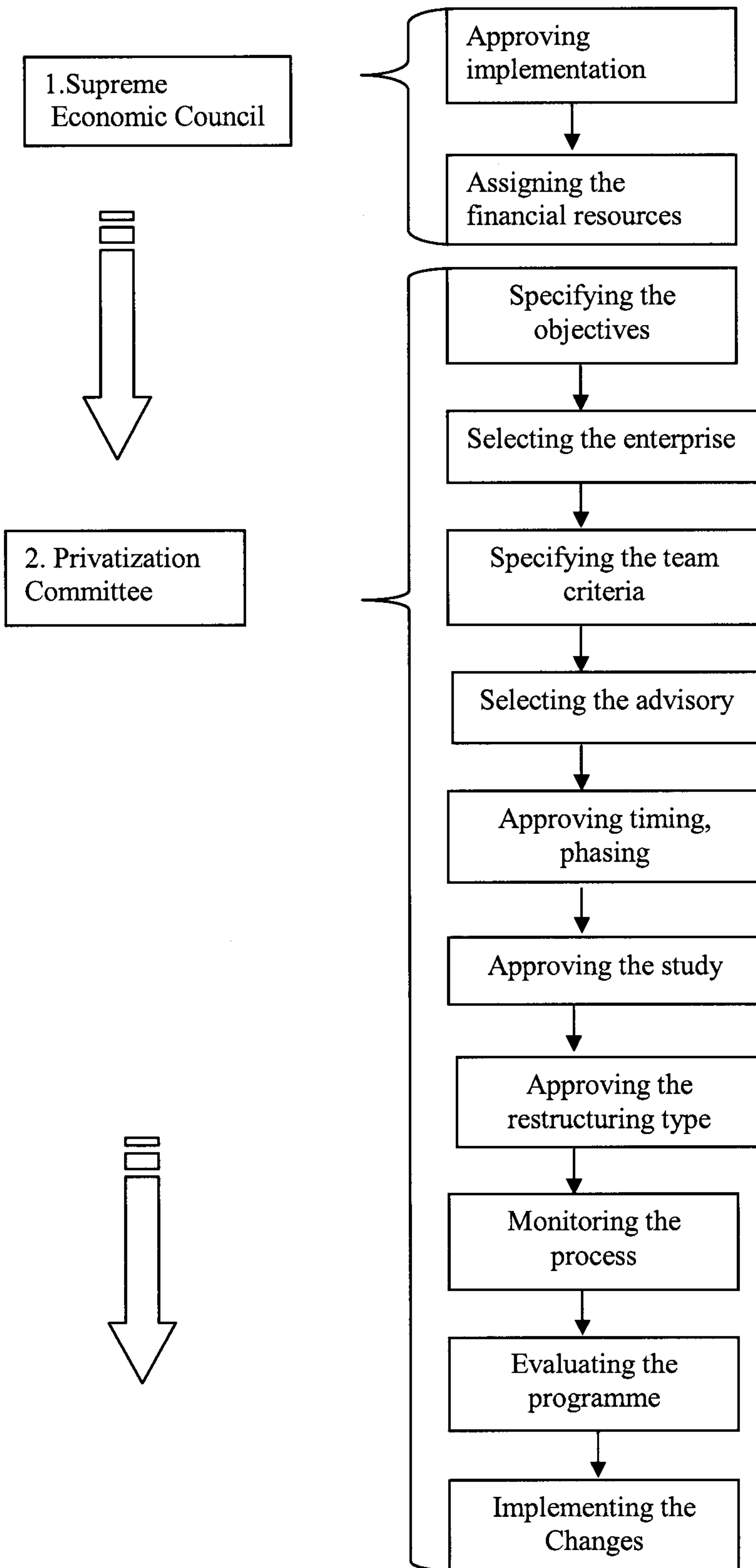
- Determining the types of restructuring that could be implemented.

Specifying these types depends on the requirements of the enterprise and how seriously each problem affects the enterprise. They have to classify these problems on different levels, from the highest to the lowest. There are different types of restructuring that could be implemented on the enterprise e.g. operational, financial, legislation, etc.

- Submitting the final study

Organizing and arranging the studies in a professional way to make them readable and understandable by all organizations involved, and then submitting the study to the Privatisation Committee for approval.





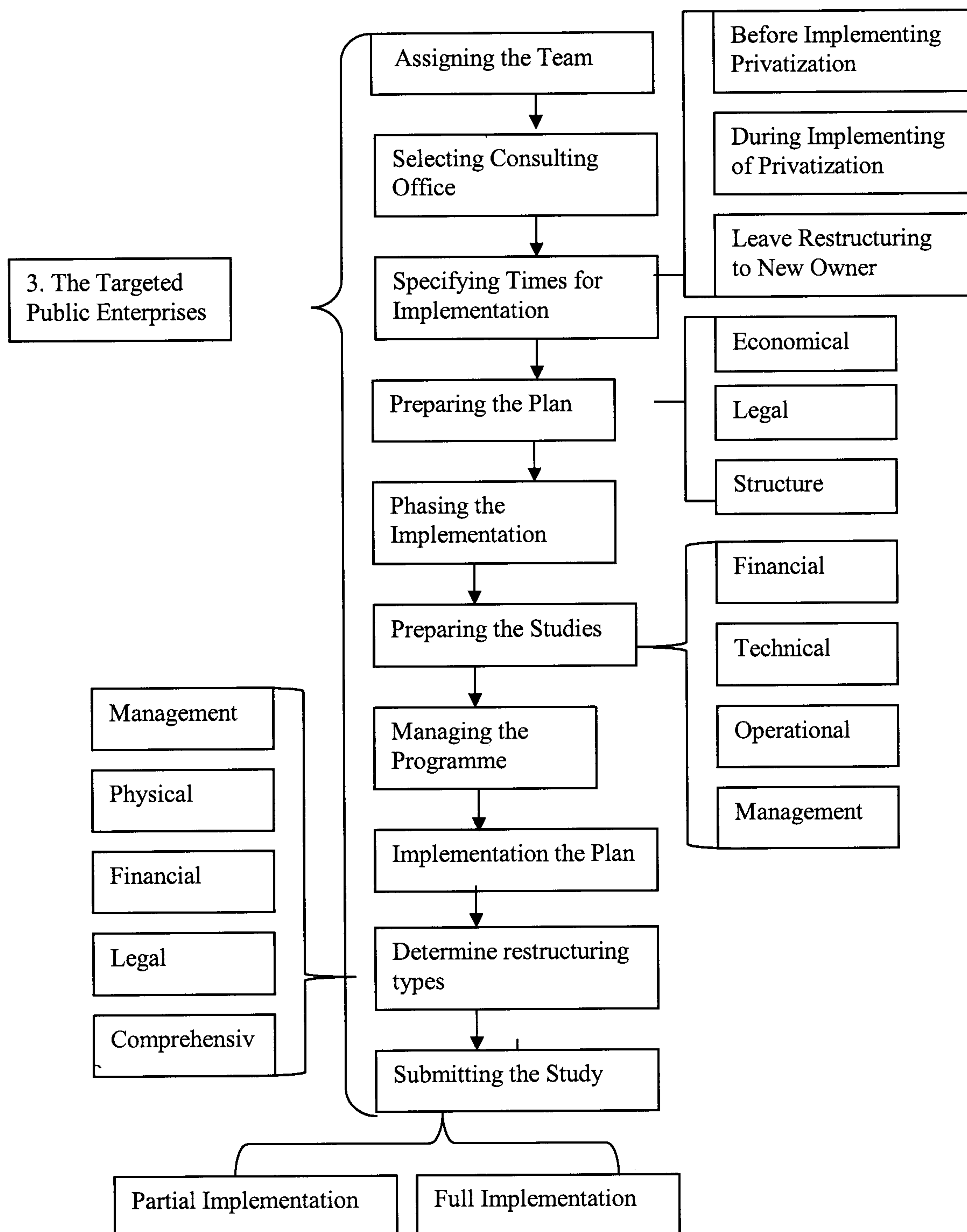


Figure 6:3 Model of assigning the restructuring tasks.

- Implementation of the Plan.

After the study has been approved, the Government could decide whether to implement the process partially or fully. The researcher suggested at the beginning that the Government should implement the process on a partial basis



for a certain time, and then it must evaluate its success. Then it could proceed with full implementation or continue with partial restructuring.

This initial model helps the Government in carrying out the process and speeding implementation of the restructuring policy, which in general has a positive effect on the whole privatisation programme. It distributes the tasks between these organizations and levels, and allows for the monitoring and supervising of the restructuring process. This model makes the task of the Government easier and simpler; they need such studies to clarify all the missing information in the policy.

### **6.17 Conclusion**

Implementation of privatisation involves many detailed steps, all of which can expedite the process; however, omitting any of them could have a negative effect on the process. One of the major factors affecting the process is restructuring the enterprise or the sector. The success of privatisation depends mostly on the method of implementation of the restructuring process. Sometimes the steps of the restructuring are very important for eliminating enterprise problems. Various privatisation strategies in different developing countries have been affected by the method of restructuring, and some of them created barriers which delayed the programme.

This emphasised the strong relation between restructuring and privatisation. Implementation of a new policy such as restructuring requires that the process be monitored and managed; this indicates that the process is not an easy task, especially since this is a new technique in developing countries and they lack the appropriate experience and knowledge. The restructuring process is applied on various types of public enterprises for different reasons; for example, improving efficiency, increasing the competition, etc.

Most of the developing countries implemented restructuring to rectify several operational, financial, etc problems, or at least minimize them. Also, restructuring could be applied to divide the enterprise into small units, or to combine some of the activities. There are other reasons for implementation of the policy on the enterprises; these include improving performance, developing or changing the management team, etc. All these objectives of restructuring should be specified before implementation of the process.

Therefore, each country should determine one or more than one objective in implementing the process. This makes the process clear for all the organizations involved and keeps the process more transparent. Assigning the process to a qualified organization with enough experience is one of the most important tasks that should be done before proceeding in the restructuring procedures.

The management team should prepare the tools and the objectives for implementation of the strategy. There are some conditions and elements that could be followed to help these countries in preparing the strategy. Each country should study the enterprise adequately before implementing restructuring. This could help them to recognize the enterprise problems and use a variety of restructuring methods. Each type has different tasks, and implementation of the restructuring depends on specifying these tasks and their sequence. There are tasks related to the restructuring types; also, the team needs some guidelines on implementation of these tasks — all these should be specified.

This helps the management team in the managing and monitoring of the process. They have to specify a set of criteria before selection of the enterprise for restructuring. These criteria should include the readiness of the enterprise for restructuring, and assessment of what type of restructuring is needed.

Financial resources are needed to help in rectifying the financial, technical, human resources and management conditions of the enterprise. Hence, each country should provide these resources before implementation of the process. The process needs the steps of implementation to be specified. This allows the country to prepare the requirements of the restructuring, such as the financial resources for implementation. Restructuring needs the preparation of a plan, which should include guidelines for implementation of the process.

Constructing a model or framework smoothes and increases implementation of the restructuring, and it should include very important information such as tasks, sequence of tasks, times of implementation, objectives, etc. The researcher reviewed some of the literature to present the experience of some of the countries which had implemented restructuring. A study of the experience of these countries guided the researcher to the ideal method of implementing the process.



This chapter presented a case study to understand the effect of this factor on implementation of the process in Saudi Arabia. It includes comparison of the methods used by Saudi Arabia in implementation of the process and those of other countries. The views of managers have been taken for analysis of their opinions regarding implementation of the restructuring policy in Saudi Arabia. It studied the procedures of one of the companies in Saudi Arabia which has implemented restructuring, and used this as a case study.

All these guided the researcher on the methods used by the Saudi Government in implementation of the restructuring policy on the public enterprise. All of these factors helped the researcher to recognize the problems associated with implementation of the restructuring policy which constituted a barrier, and that were among the factors which delayed the privatisation programme. Finally, the researcher concluded this chapter with his comments and presented a model for implementation of the restructuring.

## **7 The Process of implementation of the regulation**

### **7.1 Introduction**

Privatisation has a relationship with government, customers and investors, and all these parties need to organize their relation with each others. Implementation of comprehensive regulation achieved this purpose. It is very important to monitor the legislative matters, otherwise different economic activities in the country will be affected and it could face constraints and difficulties during implementation of privatisation. The regulation should include the study of financial, economical, political, human resources and other matters in the enterprise, sector or country as it could affect all of them.

This emphasised the necessity of studying all the legalisation matters of the process and implementing reasonable, flexible and comprehensive regulations. The process affects other factors associated with it, such as competition, liberalization of the economy, pricing, etc. Most of developing countries have been monopolised by the PSEs for a long time, and they lack regulations, there are weaknesses in the private sector methods, so even with a free market, all these issues kept these markets undeveloped and working without regulation.

Since Saudi Arabia implemented privatisation; they issued a list of utilities and services targeted for privatisation and established different regulatory organizations for different sectors. The first regulator in the utilities established in the telecommunication and they have recently started other organizations. This chapter reviews the regulation process that has been implemented in Saudi Arabia, and considers the managers' opinions in this regard. It found that these organizations were creating constraints in the implementation of liberalization and privatisation for different reasons: for example, the management team lacked legal and technical information, and competent staff to provide advice.

All this delayed the introduction of liberalization and competition into several sectors in the Saudi, so the market remained under the monopoly of the PSEs. At the beginning of this chapter, the discussion concerns a few terms related to regulation. First, regulation definition, the justification and the root causes of its inefficiencies explained, and the literature on the aggregate costs and benefits of regulation are reviewed. The Government's procedures in implementation of



regulations and the establishing of regulatory organizations are studied, and then how they tackled problems of the regulation within these enterprises and whether there have been problems in the process are described.

A case study is presented to discuss the problems associated with implementation of the regulatory procedures. The researcher compared the regulatory measures in the country with generally accepted regulatory measures outlined in the privatisation literature based on experience elsewhere. Finally, it concludes with the researcher's proposal for an ideal method of establishing the regulatory organization and the model for implementation of the regulatory strategy. The views of managers have been taken in order to analyse their opinions regarding regulation issues, and their tasks in different sectors in Saudi Arabia.

## **7.2 Definition of regulation**

Erdogdu (2006) makes the relation between regulation and competition clear: "It is essentially a means of preventing the worst cases of monopoly; it is not a substitute for competition. It is a means of 'holding the fort' until competition arrives. This statement defines the role of regulation in a regulatory system; and implies that although the private industry with regulation is far from perfect, it is the best answer currently available to monopoly problems,". This emphasises the regulation eliminate the natural monopoly and it is the primary step before implementation of competition.

James (2005) defined the term regulation: "It is used in a variety of ways in the context of public and private sector activity. Broad definitions are sometimes synonymous with controlling the activity of keeping the various elements of a system within some set of desired states. However, narrower definitions define regulation as a specific form of control that uses rules or standards combined with monitoring and enforcement activity as a mechanism of control,". This paper defined regulation as a control tool; it could be controlling various systems in the services or enforcing regulation on the services.

Success of the regulation should cover most of the business the sector is working in, as mentioned in the above paper. This strengthens the researcher's decision to investigate this matter as one of the problems affecting the process. Regulation is a type of rules or standards that provide the legislation and regulations that

monitor and control the service or utility. It provides the legal and legislative foundation for most of these enterprises. Therefore the aim of regulation is to manage the legal and legislative matters in a variety of these sectors. It helps in guiding, managing and monitoring the legalisation and regulatory matters in different utilities. Legislation organizes matters related to privatisation such as monitoring prices and quality of the service, protection of the customers, etc.

For the process to work efficiently, all regulations and laws should cover the financial matters, such as prices, quality of the services and other issues in the sector. Regulation should support the legal environment in the enterprise and the country and each government should ensure that the commercial, financial, capital markets and labour legislation provide the proper environment for privatisation.

Regulation differs from one country to another and sometimes from a city to another, but most of their purpose, content and components are similar. Regulating of the privatized sector could be affected by time of implementation of the regulation; however it is better to apply regulation before taking the enterprises or the sector to privatisation. It should follow the institutional conditions of the country. This task should be assigned to qualified organizations called regulatory agencies.

### **7.3 Does privatisation need regulation?**

The role of privatisation in determining the legal relationship between public and private is emphasised by Guasch and Spiller (1999): “Privatisation creates a legal relationship between the private operator and the public authority,”[168]. The success of both privatisation and regulation depend on each other, so most of the developed and developing countries realized the importance of preparing regulations, modifying laws and establishing regulatory organizations to organize and manage the new privatized companies. Privatisation would not work efficiently if it were implemented without proper regulations and tasks being assigned to qualified employees. Bitran and Serra (1998) also specified the influence of regulation on performance of the privatized utilities: ‘With regulators setting prices, utilities are vulnerable to administrative expropriation. If the institutional environment fails to provide assurances against expropriation, they will invest less than is optimal’.



The aim of implementing regulation on privatisation was to regulate the process between all the parties involved and make the investment environment more stable in the country. Other factors include increasing economic efficiency and introducing competition, improving quality and performance, resolving disputes, etc. People could benefit from privatisation if it is implemented with reasonable and affordable regulations to organize and monitor these activities, resulting in the benefits of low prices and good quality.

Levy and Spiller (2005) cited case studies of telecommunications regulations in various countries as evidence that 'the success of a regulatory system depends on how well it fits with a country's prevailing institutions'. They asserted that privatisation would fail if the regulatory system did not match the institutional endowments of the nation. Each country should make sure implementation of regulation should work with the existing institutional systems of the country; otherwise this could delay implementation of both regulation and liberalization, which will lead in the end to hindrance of the privatisation programme.

Availability of regulation allows the private sector to participate in different economic activities, but these regulations should not delay or constitute a barrier in developing the economic activities in the country. The success of privatisation depends on the implementation method of the regulation, and should work with the institutional situation of the country. Regulation includes availability of legal environment and existing rules that organize the relationship between the private and the public sector.

Wojtyna and Hausner (1993) mention that "Siebert (1991), in his analysis of East Germany's transition, to argue that with respect to existing firms ('Kombinate'), three aspects, though interrelated, must be distinguished: Establishing legally independent organizational units; Achieving economic efficiency and; Setting up private ownership. Many privatized companies still face regulation in some segments (most notably, the regulation of access or other constraints on prices.

Shehadi (2004) also emphasises that "In cases where privatisation concerns an infrastructure sector (telecommunications, electricity, etc.) that is already governed by existing legislation, that legislation needs to be revised to allow private sector participation and to put in place an effective regulatory framework,"

The public sector in several countries had not been concerned previously about the involvement of the private sector in different activities, as had the developed countries. A shortage of regulation matters created delay in liberalization of different economic activities. Weakness in the legalisation system reduced their ability to attract the investors and that affected different sectors.

Reducing the massive burden on their budget gave them incentives to implement, partly or fully, liberalization of their economy and to implement different methods to improve their economy. Therefore these countries need to increase and develop regulation to increase the liberalization of different types of industries and areas of the economy. Different developing countries started to use a variety of economic methods to improve their economy, and some of them used privatisation methods.

Implementation of privatisation needs clear and updated regulations that create incentives for the customers and investors to participate efficiently, otherwise that could slow and hinder the implementation. Before privatising, the government should ensure that all the new and old regulations provide a suitable investment environment for privatisation. This section is strengthening the relation between the regulation and the privatisation in the first level and the relation between the regulation and competition.

#### **7.4 Objectives of establishing regulatory organizations**

There are several countries that have been affected by implementation of the legal and legislation policies, where, for example, the objective of establishing the legislation was not clear, did not specify or give any legislation objectives or details, etc. The objectives or goals for establishing the regulator should be built on the country's requirements of this organization. Many experts have mentioned this point, such as Parker and Kirk (2005):

The aim of a regulator should be to allow for temporary super-normal profits that result from management efforts in reducing production costs, while providing the same or an improved quality of service — this is a necessary incentive for innovation, and super-normal profits can exist in the short-run under competition; but at the same time ensure that over the longer-term the firm only earns a normal return on its regulated assets.

Guasch and Spiller (1999) discussed other goals that could be achieved by applying regulation, stating: “The most common arguments are based on



correcting for market failures, economies of sale or equity considerations rations,”. The above papers mention a very important point, which is that the country should not be concerned about short term but should concentrate on long-term objectives. Each country or investor should not be concerned about increasing prices to obtain high revenues; this will affect the company in short and long run through losing a high number of customers.

This paper also emphasised the other role for the regulatory body: “An independent regulatory body is another factor, usually acting as a neutral enforcer among all the players. It monitors the market and interactions among the players. The rules preclude the recruitment of regulator members from among the players or government officials,”[190]. Each sector and service could issue a number of objectives, but most of them would search for liberalizing the sector and the market, reducing prices, attracting investment. Niemeier (2002), commenting on the experience of implementing regulation in the aviation sector, states:

The overall objective of this market-based aviation policy is to maximize economic welfare by liberalizing markets and correcting market failures. In this framework the objectives of regulation for the airports are: efficient structure of airport charges; cost efficiency; free market entry; stable environment with high incentives for investment; low costs of effective regulation.

Some of the countries established the appropriate legal framework and that helped them in accelerating the process, protecting the customers, improving the services and the quality, etc. One of the factors affecting privatisation success is the availability of enough legislation and an efficient regulatory framework. Another study examines the experiences of establishing the regulator in the electricity sector supply, and all the listed items are more or less the same: “Both licences contain conditions that control the average level of prices, require nondiscrimination and prohibit cross-subsidy, and specify the conditions to be met to ensure security of supply,”[185].

The telecommunications sector experiences are shown in the next paper. This paper is very important because it has evaluated what happened after implementation of privatisation in Latin American countries; each country could use these benefits when preparing the objectives of establishing the regulator and what could be achieved after implementing privatisation.

Availability of an independent regulator and introducing competition — making the country a good investment environment — is one incentive for attracting the investors, as stated by Shirley: “Regulation is credible and provides efficiency incentives, and the terms and conditions of the sale and regulation do not introduce distortions,”[195].

The purpose of studying different services and countries’ experiences helped the researcher in understanding the objectives of establishing of the regulation. Liberalization could be one of the goals, as Gutierrez and Berg (2000) mention: “This institutional innovation was part of the liberalization process that has permeated the hemisphere,”. Regulatory organizations should implement regulation to eliminate the dangers of privatisation by reducing the increase in prices, improving quality, etc.

The danger from privatisation that could create an impact on different level of the citizens: as Kikeri et al. (1992) stress, “When privatisation involves enterprises in non-competitive markets — usually large SOEs operating as natural monopolies in such areas as power, water supply, and telecommunication — a legal and regulatory system must be in place to protect consumers,”. This paper is very important because the Saudi market is not a competitive market and most of the sectors are monopolized; therefore they have to regulate several services.

The goal of regulation should be clear and it should be implemented in a transparent way and provide all the information needed; all the regulations and laws should be used evenly between both local and the international investors. These regulations and objectives could be implemented in a privatisation programme in different ways, but the most practical way is through establishing an independent regulatory organization to monitor and supervise the process. Greenidge (1997) mentions one aspect of the regulator’s role: “Its structures exist for the purpose of safeguarding the public interest in the context of the new market liberalization and privatisation,”.

In conclusion, as mentioned above, there were different objectives in establishing regulatory agencies and implementing regulations on different sectors and services. Therefore each government should keep the main goal of establishing an independent regulatory system working between all the players. Countries



specified and implemented these objectives for different reasons: developing the sector, reducing production costs or improving quality. There were many objectives for establishing regulations and regulatory organizations, such as introducing competition, providing services at low prices without lowering the quality and protecting the customers and investors. Every country should select appropriate and reasonable goals that could be achieved and help in developing the service and the economy.

### **7.5 Problems in implementing regulation of services**

After the researcher realized the goals of establishing the regulation in the previous section, this section investigates the problems that could hinder achieving these objectives. Privatisation is affected by the design of the regulation, as Ariyo and Jerome (1999) state: "It has also been marred by errors in policy design and implementation, weak institutional capacity to enforce regulations and lack of credibility,".

Classification of the regulation problems was recognized by Guasch and Spiller (1999), who state: "There are two reasons for inefficient regulation: one is economic and the other is political. The economic reason is that it is difficult for a government authority to regulate companies. Political considerations concerning regulation also lead to inefficient economic results,".

Some of the developing countries concentrated on implementation of the privatisation policy but omitted other factors, such as preparing clear regulations, competition policy, etc. These matters have a huge effect on liberalization, the investment environment and privatisation. Thus, all these factors and others linked or interrelated with each other affect regulation, which subsequently affects privatisation. Therefore each country should study, in parallel with the process, all these factors to avoid delay in the programme.

The condition of the legislation has an impact on the investment environment in country, as described by Shirley (1999): "[if] the judiciary or checks and balances are weak, investors will be wary of regulations which give the regulator a level of discretion and independence that might be unacceptable". There are problems in establishing and implementing regulation, such as: a lack of knowledge on the part of regulator's management; shortage of financing these organizations,

limiting their abilities to modernize the laws; the country's lack of legislation. The researcher classified these factors into three groups: administrative, financial and legal.

Each country should know the source of the problems; this allows them to classify them in the proper category. Classification of the legal problems permits each country to search for the proper advisor and assign the task to them. Hooper (2002) mentions the constraints that faced some Asian countries in implementation of the private financing of infrastructure — some of these factors are “lack of encouragement and conducive private-sector policies and favourable legal/regulatory environments; the need for greater transparency and increased competition for cost effectiveness and public support,”.

Before or during the implementation of privatisation, each country faced different types of problems or constraints in legislation and legal matters. To avoid these problems, they should review the institutional regulations and check if their requirements for the privatisation strategy are available; otherwise they should develop them. There are other factors that could impact on implementation of the regulation, such as legal and legislation information systems available in the country and the methods of implementation for these regulations; each country should consider upgrading and using modern legal information and preparing a regulation framework which will allow for implementation of regulation efficiently.

Governments should study their programmes and capability carefully before proceeding and allow different parts of the public and private sectors to participate by offering their opinions on the policy during the planning and the study stages. The telecommunication sector was affected by creating complex regulation systems, as happened to the Telefonica Company in Spain. As stated by Bel and Trillas (2005), the company “operates under a more complex regulatory system: its operations are constrained by decisions taken by a number of institutions: governments (in the different countries where the firm now operates), regulatory agencies, courts and supra-national authorities,”.

The participation of the concerned parties in the country makes the programme clear and understandable to them; this has a positive affect on the process,



speeding up implementation and increasing knowledge and transparency. Involving multiple parties in the process could make it more complicated but they have to select the public and private organisations with enough knowledge of the subject. There are countries that lacked the capability and did not have the resources to plan, design, and monitor the regulations, or at least implement new laws or policies for any of their services. As an example in a conference entitled “Saudi Arabia: Financing the Future” (1999), The Deputy Minister for Electricity commented that “creating an independent regulator is not easy for countries such as Saudi Arabia which have limited regulatory experience,”.

They could hire specialized offices to study and investigate these problems; this could help them in finding solutions and implementing regulation. Problems with bureaucratic layers in the regulation and their effect on the process were mentioned by Sharma et al.(2004): “The proposed regulatory framework appears to be typified by multiple layers of largely incompatible, conflicting, dichotomous and self-defeating regulation. Also it is quintessentially ‘central’ in character, and the associated system of granting franchises, licences, permits, and the setting of rates,”.

Valuation is one of the problems that could have an impact on regulation, as Wojtyna and Hausner (1993) assert: “There are, of course, potential threats and problems inherent in the programme’s implementation. For example, the difference between an initial valuation and a final sale price, which constitutes the base for a managerial group’s bonus,”. These papers indicate how different developing countries have been affected by various problems during the implementation of regulation. According to these studies, there were problems associated with regulation, such as the monopoly, evaluation of the bidding, lack of transparency and independent regulators. Some of these problems left a huge impact on different matters related to regulation, and created conflict between the government, investors, companies and customers.

There are various factors which should be studied carefully during implementation of regulation; these include comparing the legislation with international practice and reducing the number of layers during management of the regulatory process. The process needs the preparation of a framework or

model of implementation of the proper legislation method. Regulation has a relation with licences, permits, prices and the setting of rates, cap prices, quality of the services, etc.; all these factors should be studied with regard to regulation to avoid creating a problem or delay in the process. All these matters indicate that the implementation regulations need to consider different subjects and parties.

The researcher linked and summarized the failure of the regulation process in several countries to factors such as: Lack of a regulatory body; The process was assigned to unqualified management; The regulations were implemented without framework or guidelines; It lacked the legal and legalisation aspects; Competition was not introduced into the process; It lacked the necessary information on how to implement the regulations; The process was not associated with transparency, and; Limited liberalization of different economic activities that affect implementation of competition.

All these factors or problems lead most of the developed and developing countries to establish and issue different regulation policies and establishing an independent regulatory body to supervise each privatized sector or services. The aims of these regulators were different, but most of them were attempting to promote the interests of consumers and investors in different ways, regulating and monitoring quality and prices of these services and protecting consumers from monopoly. Some of these countries are trying to guard against replacing a public monopoly with a private one by developing effective regulatory institutions. They learned that good regulator governance plays a major role in developing public infrastructure sectors and the investment in these sectors.

The regulatory agency is a new organization in most developing and less developed countries, and it is difficult to handle such authority, especially in those countries which lack certain legislation and professional employees. Enlarging and widening the regulator's responsibilities in different sectors make the process complicated, and could create multiple bureaucratic layers in the implementation of the regulation process. They have to establish the regulatory organization and implement the regulations tasks according to their capabilities and the availability of qualified human resources in handling such tasks and responsibilities. The availability of the legislation in all sectors and services is very important and



would be helpful in increasing the speed of establishing the regulator's responsibilities.

Some of these factors could constitute a significant delay or an obstacle to the implementation of the privatisation and regulations. Hence each country should integrate regulation for competition policy with privatisation. That would allow each government to develop an independent regulatory body for protecting the interest of the consumers, the private sector and the public enterprises. The body could regulate a set of legislation and laws and establish a level of consumer tariff so as to achieve a fair balance between all the parties involved. To attract the investors and speeding up implementation of the process, the governments need to design a clear legal and regulatory framework with well-defined roles and responsibilities of institutions. The framework of the regulation should incorporate transparency in the process of bidding and awarding of the contracts.

#### **7.6 Role of regulation on implementation of the competition policy**

Regulation affects other policies and factors such as competition policy; this section will discuss the relation and interaction between them. Kikeri et al (1992) emphasised the effects and relations between regulation and competition: "Greater attention should be paid to developing competition, wherever possible, by eliminating barriers to entry and enacting the appropriate regulations, and enhancing the productivity and efficiency of SOEs," .

Changing the ownership from a public monopoly to a private monopoly will not achieve the privatisation and competition goals without liberalizing and opening the market. The Saudi Government released part of their shares to the citizens in STC (20%) and SABIC (30%), but the market is still monopolised by one company in most sectors, except for the mobile phone sector where there are two companies. Dassler et al. (2006) discuss the relation between the regulation and competition in the telecommunication sector: Littlechild proposed a temporary price cap regulation until sufficient competition within the telecommunication industry had developed to allow the elimination of regulation in all parts of the industry,".

Privatisation success depends on the method of establishing and organizing the regulation. Regulation should support the entire legal environment and the

institution system in the country. The Government must ensure all laws and systems support the process, such as labour, banking, stock market, company, etc. This includes introducing competition policy, which should encourage liberalization of different sectors, helping in implementation of the privatisation. Introducing competition should be encouraging, especially in the services and infrastructure projects which allow for attracting more providers in the services, thus reducing the prices and increasing efficiency and quality of the services. All these factors should be stated in the objectives for introducing the regulation and competition in these sectors and services.

Wise [2002] explains the complexity of the relation between regulation and competition and why it should be designed from the beginning, in which he listed points such as: Competition policy should be integrated into the general policy framework for regulation; Competition policy is central to regulatory reform, because its principles and analysis provide a benchmark for assessing the quality of economic and social regulations, as well as motivating the application of the laws that protect competition; Regulation can contradict competition policy. Regulations may have encouraged, or even required, conduct or conditions that would otherwise be in violation of the competition law, and; Regulation can use competition policy methods, can reproduce competition policy and can replace competition policy.

Monopoly of these sectors under one company keeps the prices high, produces low quality, increases bureaucracy in management procedures, etc. Also, the investors could worry about the participation in different sectors because the Government still hold the highest proportion of shares in these enterprises, potentially protecting them from competition with other companies or investors. This encourages the Government to speed up the liberalization of the economy, sell part of their shares and attract other providers in order to increase competition.

Kikeri et al. (1992) mention the dangers of privatisation without competition, but they stated how the process could work: "Successful privatisation of non-competitive state-owned enterprises (SOEs) requires a regulatory framework that separates out potentially competitive activities, sets out the tariff regime,



establishes universal service goals, develops cost minimization targets, and creates a regulatory agency to supervise the established procedures.”.

This emphasised privatisation would not work without competition and liberalization of these sectors and services. Developing competition depends on increasing the liberalization of different sectors and services by eliminating the barriers in regulations and rules that delay or hinder competition or attract more than one provider for the service. Applying these factors had a positive effect and improved the quality, productivity, regulation, efficiency and lowering of prices. The literature review explained the strong relation between regulation and competition. In implementation of competition every one (customers, investors, government) should benefit from the process through reduced prices, and production costs, high revenues for the government and investors and a higher quality of the services. This process should satisfy all the concerned parties.

For privatisation to work in non-competitive markets it needs very strong regulations and rules to control and monitor these activities. That leads the researcher to investigate whether the Saudi market is competitive or not. Through this research most of the activities and services were targeted for privatisation — none of them had competition, except in the mobile sector where there were two companies, but there is a potential for actual competition in all the services and sectors targeted for privatisation.

Also, that did not mean these services will not work but most of them need liberalization, introduction of regulation and competition before privatisation. Hence the first step before implementation of competition on utilities is to establish clear and flexible regulations. This allows them to prepare long term plans for implementation of the regulations and specifying which sector has competition or potential and which has not.

### **7.7 Designing of the regulatory authority and its tasks**

See Section 11.8 Appendix H

### **7.8 History of the regulation in Saudi Arabia and the Case study**

Refer to Section 11.9 Appendix I

## **7.9 Points that should be considered for establishing a regulatory organization**

A regulatory organization should be an independent governmental authority; it has the power to implement regulations on one or many sectors such as electricity. Making the regulator independent should help in eliminating the interference from other organizations or some of the decision-makers in the country. There are various objectives for establishing regulators, such as: implementing different regulations; organizing the business; manage these sectors; protecting the customers from investors; protecting the service from the government interference.

All these objectives should be specified before establishing the organization. This keeps the market stable and attractive in the short and long term, attracting more investment in the services, brings more providers, speeds up the process, provides good prices and develops the quality of the services.

The most important factor in the success of implementation of regulations is associating the process with more transparent and accountable operations. Designing and planning regulator policy is not an easy task and most of the countries faced multi difficulties during establishing of this organization, particularly those countries where the legal and judiciary infrastructure is weak or not available. The researcher listed the follows points as shown in Figure 7.1 and explained in more detail below. These points could be used as guidelines for implementation of the process and the points as follows:

- Preparing clear objectives: Specifying clear objectives for establishing the regulator will be helpful in evaluating their performance. This step guides the management team to achieving some or all of these objectives.
- The difficulties with implementation of regulations can be overcome if the governments design the legal aspects and the regulatory policy carefully. During implementation of the process, it is important to get the right time and sequence with all the steps needed.
- These factors will be helpful in building a strong privatisation programme with a clear regulation policy. Governments should study the reasons, specifying the necessity of establishing the regulatory policies, and list some criteria concerning whether to proceed or not.



- Providing the support: Establishing a regulator needs government support and commitment by issuing a law and assigning an independent budget. They need financial, technical, operational and administrative assistance; all these should be provided.
- Assigning the Governor: this step increases the commitment of the Government and speeds establishing the authority. The Governor should be one of the qualified personnel in this field to help in managing and monitoring of the regulator.
- Determining the regulatory tasks and the requirements for each task: This allows the regulator to prepare and construct the framework and establish the relation of the tasks with each other. It creates a clear vision about the work and increases coordination between the employees.
- Establishing the regulatory organizational structure helps the Government to know their requirements of the employees for managing the regulator. This process could avoid contradiction and interference between different departments in the organization and employees.
- Enlarging the regulatory authority more than necessary could increase the bureaucratic and management layers in implementation of the process. The Government should avoid enlarging and widening the authority during the establishment of the regulatory structure.
- Coordination with other government authorities: All the regulatory tasks need coordination with different governmental organizations. Therefore each sector should prepare the types of work and activities that need coordination to eliminate possible delays in the future.
- The regulator should maintain strong ties with these organizations to help in managing and monitoring of various tasks between them. This smoothes implementation of the regulation and avoids future conflicts.
- Availability of information: Investors need all the information related to the legal and legislation aspects, bidding, pricing, type of the quality, spectrum, etc. All this information is very important for the success of this organization. Therefore, unavailability of such resources could constitute a constraint in implementation of regulation, especially in the developing countries where such resources do not exist. The Government should make sure this information is available to all the investors.

- Independence of the authority: Ensuring that the authority is independent financially and administratively, and is working without government interference. This helps the authority to speed up its work and procedures of implementation.
- Making sure the regulator does not have any relationship with any of the providers or the operators in any one of the services, sectors. They should treat all investors equally (local or international) without bias.
- Reviewing the existing legislation: There are different outdated legislative issues that should be studied and reviewed to eliminate potential barriers. This step may need the reform of different legislation matters and laws in the country to improve the investment environment, reduce monopolies and increase liberalization of the sector.
- The regulator could utilize and develop the existing laws that are encouraging liberalization of the sector and eliminating the monopolies. The regulator will have to make sure that all these changes and reforms are necessary and do not effect on the country.
- Issuing the final legislation: The Government may need to create new legislation, if needed, to improve the quality and reduce prices, increase the investment environment, protect consumer interests, etc.
- It is necessary that the legislation covers the financial, technical, operational and any other required fields. Omitting one of them could cause a delay in implementing the process and could affect investments in the country.
- Assigning the Governor's tasks: After they have assigned the Governor and before proceeding in establishing the regulator, the tasks and responsibilities of the Governor should be clear to avoid conflict or delay in the process.
- Specifying the tasks and distributing them between the Governor and the president of the board speeds implementation of the process. This is one of the major steps which should be taken before preparing the regulatory framework.
- After preparing all these studies, the Government could design the regulatory framework. This framework should cover all the tasks included in the process and through the framework they could achieve the specified objectives.



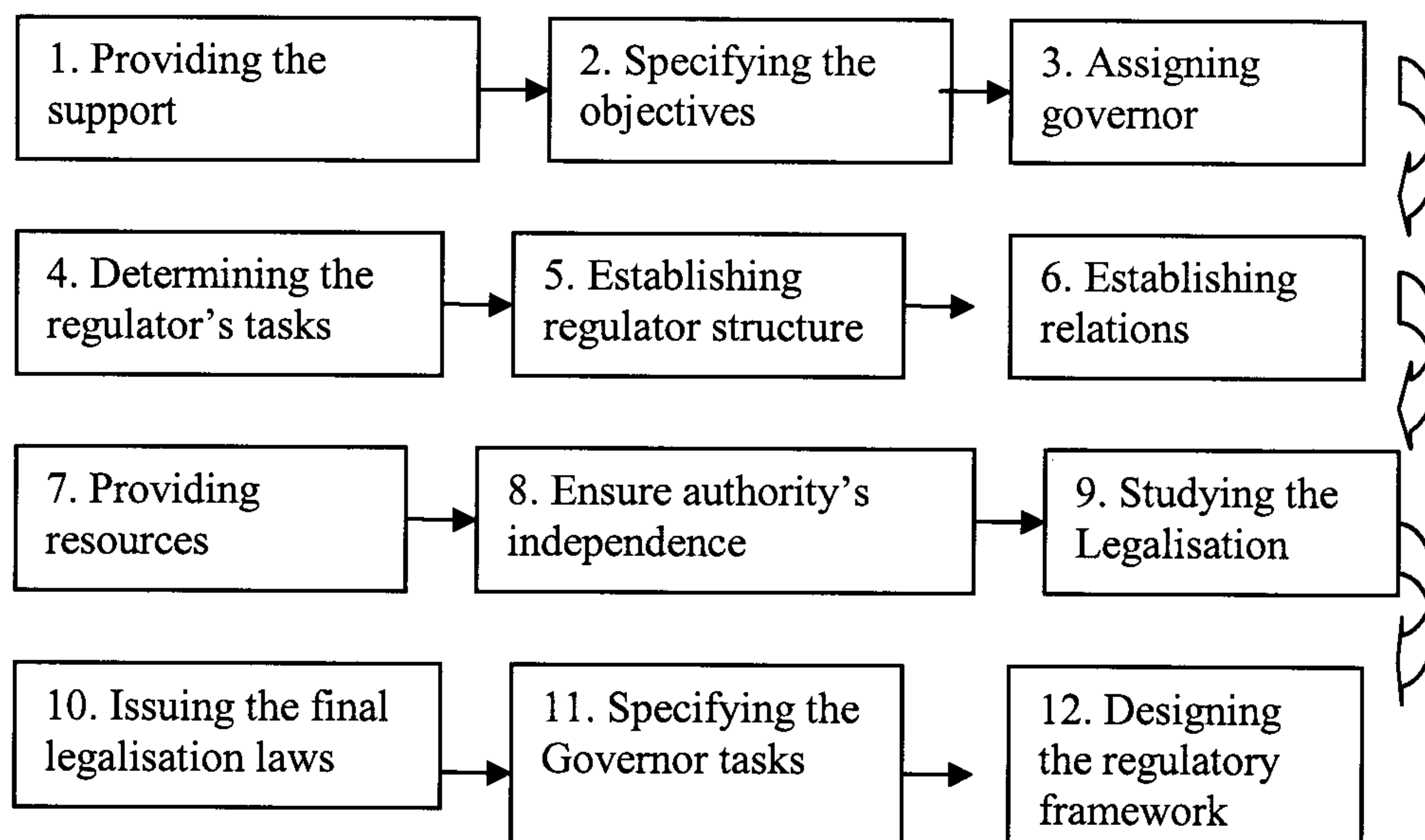


Figure 7:1 the points that could be considered in establishing regulator.

### 7.10 Factors helping in establishing a regulatory framework

There are some factors affecting the success of the process and establishing the framework. These factors depend on different legislation and regulations in different fields. Designing the regulatory frameworks is not an easy task and there are some requirements for the success of the operation. The role of the framework for regulation should be emphasised; this makes the process clear and easier for implementation. Creating the framework avoids any possible impact on different groups in the country — failure of the regulation could affect customers, especially those with low incomes. The framework should eliminate any monopolies that could arise in the process.

Many developing countries had different problems with implementation of the regulator policy; for example, some of them started without preparing a framework — the procedure was not clear, there was interference from the decision-maker in the process, etc. These countries found difficulties in establishing and implementing the regulation in different sectors because of weak legal institutions, unavailability of the information and poorly qualified employees, etc. This affected the regulation policy and delayed implementation of the regulation which impacted directly on the privatisation programme.

Other countries had designed the legal and regulatory framework at the beginning of the process. This makes their country suitable for attracting and encouraging investors and customers. That emphasised their commitment to implementing

clear legal and legislation procedures and clear requirements to foster competition, and to protecting consumers' interests. The framework should be built on clear procedures and associated with full transparency and accountability, and it should be managed by an independent organization and qualified employees. Each sector and country should have its own legal and legislation structure and should look to its requirements for the success of this process.

The following are factors that could be used as guidelines for establishing the regulatory framework:

- Eliminating or minimizing the government interference in the framework: This could happen by creating clear regulation, eliminating interference from bureaucratic managers' or decision-makers who could make the process more complicated. Creating clear regulation allows the public to understand the process. This emphasises that the process should rely on simple and flexible procedures and avoid complexity.
- Minimizing the relationships with other organizations: Implementation of regulation needs approval from different organizations, and the process involves lengthy procedures that could cause delay. This emphasises that the Government should keeps the regulatory relations with other organizations to a minimum number of authorities.
- Developing guidelines: It should provide all the information that makes implementation of regulation procedures clear and understandable. These guidelines should present methods of implementation of regulation, such as types of privatisation that will be used, methods for evaluation of the bidding, etc. and all this information should be available, which will attract more investors, etc.
- Associating the process with transparency: Success of the regulation depends on following transparent procedures in the process. Transparency helps in attracting local and foreigner investors. Implementation of full transparency needs issuing updated reports about different activities undertaken by the organization.
- Increasing liberalization: Regulation and competition are affected by how much the country liberalizes different economic activities. Increasing liberalization increases the number of providers for each sector and service.
- Assigning a specialized organization: The Government should assign this task to an organization with specialized knowledge of the appropriate methods of



liberalization for different enterprises and services. This emphasised that the Saudi Government should take further steps towards liberalizing of different economic activities in the country.

- Involving experts: The process needs experts in legislation, accounting and financial areas during establishing and implementing the framework. They could take opinions of different organizations and experts in the process; this will help in attracting the attention of private and government organizations to the process and allows for smooth implementation. Studying the views of different parties in the process such as customers and investors should be carried out.
- Cooperation of other organizations: Implementation of the legislation strategy on different sectors needs support and cooperation from different government organizations such as the Ministries of Justice or Commerce. Therefore the Government should make sure that all the organizations are fully cooperative.
- Selecting the management team: They have to prepare specific criteria for each senior position in the organization. This allows for selection of qualified employees with enough training and experience. The criteria should be specified according to the requirements of the organization. They should avoid recruiting from the operators or the provider employees in any one of the services. This makes the regulatory agency independent, and that helps in the managing and monitoring of the regulator with transparency. It must prepare for each position in the regulator a job description and the requirements for this position.
- Assigning the tasks: After selecting the management team, the tasks and responsibilities should be assigned to them.
- Preparing the framework: Constructing the framework should come before implementation of liberalization and privatisation. This will help in monitoring and supervising of various activities in the process. They have to make sure the framework increases competition and liberalization of the sector and reduces the risks for the Government. Most of the problems in the regulation could be eliminated or reduced if the Government construct clear and understandable frameworks for employees, investors and customers.
- Applying new regulation techniques: Using modern techniques to estimate the prices, specifying the quality, managing the bidding and licensing process, etc. This will give the customers and investors an indication that there is commitment

from the Government to apply clear procedures such as benchmarking, price-capping, etc.

- Selecting the appropriate time for liberalization. Various developing countries were affected by selecting the wrong time for liberalizing their economic activities. This was for different reasons; for example, the country lacked legislation or the financial market was not ready, etc. Therefore they should select the proper time for implementation of the privatisation and competition.

### **7.11 Managers' opinions about implementation of regulation**

See Section 11.10 Appendix J

### **7.12 Conclusion**

Most of the countries have realized the privatisation risks, and most of them the market ran with appropriate regulation: they established regulators in many sectors and services to prepare and develop laws and legislative matters. These laws help in monitoring, supervising and studying many policies to liberalize and implement different regulations on these sectors.

The complexity of establishing the regulatory bodies and the market structures for basic industries such as energy, transport, water/sanitation etc. constitutes a barrier in implementation of the proper regulation policy in privatisation programmes in different developing countries. All these factors affected the implementation of privatisation.

The Saudi Government established regulators in different sectors, such as financial, electrical, telecommunication and aviation, while there were other sectors not yet regulated, including post, water, railways, etc. They implemented regulations on different sectors but there were different problems associated with the process as follows: The market not being fully competitive; Slow implementation; Weakness of the legislation in the country; Management teams lacking experience; Lack of qualified employees; Management layers, and; Regulators lacking the authority to liberalize the sector. They should study the factors which affect the process and eliminate them.

The Government could develop these organizations in various ways, such as providing support, combining some of them together, applying change in



management, hiring consulting offices, introducing some management techniques. They could construct frameworks for implementation of the process which could provide clear guidelines to be followed by the investors, consumers and government. The framework should include all the tasks, and consider the relation between them and coordination with multiple parties involved in the process. The programme needs transparency, and should make all the information available for the investors and customers and other parties.

This study presented the opinions of the public and private sector managers, and they were not satisfied with the performance of the regulators. Governments should give these organizations the authority to liberalize their sectors and attract more investment. This allows the regulatory agencies to increase the innovation and research work in each sector and attract the private sector to different investments. It will be an incentive for the Government to diversify its resources and increase the income. The Government should implement an annual evaluation of the performance and efficiency of these organizations. It must consider that the regulatory policy must be set in an appropriate way and protect customers, investors, etc., otherwise these enterprises will continue to operate under the private monopolies.

## **8 The proposed framework for implementation of a privatisation**

### **8.1 Introduction**

All the previous chapters indicated that privatisation depends on the method of implementation of the strategy, clarity of the programme, assigning the responsibilities, involving the minimum number of organizations, etc. Implementation of privatisation is affected by other factors and has strong relations with several organizations.

Employees in the enterprises are some of the major factors delaying and creating barriers during the process. They are also affected by the process in different ways, such as loss of jobs, reduction in salaries and benefits, etc. Matters related to the employees need to be studied; they need to be protected by the issuing of laws; also, some incentives should be presented to them, e.g. some compensation may be offered, etc.

One of the factors affecting the success of privatisation is the method of implementation of the restructuring process. Restructuring impacts positively or negatively on the process; the process allows for dividing the service into different small businesses or separating the sector into smaller units. Implementation of restructuring needs preparing a full study on methods of applying the process.

The study should cover various matters, e.g. the financial and technical condition of the enterprise. There are different developing countries that failed in implementation of the process because they did not give adequate consideration to the related matters.

Regulation is another factor which has a huge impact on the success of privatisation. It has good relations with legislation and laws; and it includes the development and establishment of new laws. Privatisation is a complex process, and while not limited to these factors, it needs implementation of different management techniques, such as designing, planning, control and monitoring of different activities in privatisation process. The next section reviews the literature regarding the problems in managing and planning privatisation strategy.



## **8.2 The literature review regarding the problems in managing privatisation**

Success in managing privatisation is not easy and requires a great deal of effort on the part of the government, corporations and the various professional international financial institutions, as stated by Rondinelli and Iacono (1992):

Although international financial institutions such as the World Bank and the International Monetary Fund have given a great deal of attention to the macroeconomic policy reforms that are needed to make privatisation successful, they and governments around the world have given far less attention to developing the institutional capacities needed to implement and manage privatisation.

These countries found a variety of difficulties, as specified by Iacono (1995), which were related to "...a lack of experts and qualified management teams, lack of information and resources, etc. Governments and the private sector face serious management challenges in implementing privatisation policies,". Privatisation needs a good environment to succeed in attracting investors in different services, as indicated by Prokopenko (1991): "Once governments have established a policy environment that is conducive to privatisation, they must create new institutions, effective privatisation procedures and the appropriate organizational structure and management mechanisms,".

These studies mentioned that privatisation projects need more study and planning in the implementation of the process, as it needs different financial, technical, information resources, etc.; providing these will help governments in smooth implementation of the process. Many issues have to be considered before proceeding with privatisation, otherwise countries could face unanticipated problems, as Rondinelli (1994) warns: "Privatisation has proven to be far more complex, however, than many economic reformers and political leaders anticipated. Rapid progress in divesting of large numbers of SOEs has been limited to a relatively few countries,".

Privatisation needs the implementation of some management principles, as studied by more experienced researchers such Vuylsteke and de Kessler as mentioned in section 1.3. All these literatures emphasise the importance of this type of research. The private sector plays a major role in the process, so the Government must allow for their participation in different aspects, e.g. planning,

managing and implementing. Another paper by Rondinelli and Iacono (1996) emphasised this point:

Governments and the private sector must work together to plan and implement programmes for privatisation because it will not succeed in social, political or economic environments that are not conducive to the efficient operation of private businesses; structural reforms must create a policy environment that promotes market development and rewards entrepreneurship.

The role of the management team is very important in preparing the privatisation strategies, as mentioned by Salama (1995): “A management team with long-term vision will anticipate this change (whilst still state owned) and prepare strategies for managing it and ensuring the success of privatisation,”. Rondinelli and Iacono (1996) mentioned the existence of several studies and lessons prepared for managing privatisation that could be used by different countries: “More than a decade of experience with privatisation provides lessons that can help governments to plan, implement, and manage the process more efficiently, effectively and responsibly,”.

Difficulties or complexities of privatisation came from planning and managing several matters associated with the process, such as applying new regulations, restructuring of the enterprise, changing legislation, the process faced by opposition, resistance and barriers, etc. Saudi Arabia is one of those countries which has been implementing the policy since 1997, in order to improve its economy, develop different enterprises and attract investment. The next section reviews the problems with implementation of privatisation programme in Saudi Arabia.

### **8.3 Problems with structure of managing and implementing the privatisation strategy in Saudi Arabia**

There were barriers in the implementation of privatisation in Saudi Arabia, and several factors were the cause, as mentioned in the previous chapters:

- Managing the privatisation strategy is one of the major factors affecting the process; the researcher prepared an assessment of the privatisation strategy in Saudi Arabia in Chapter Five and in this chapter this barrier will be discussed in more detail.
- Barriers with resistance and opposition by the employees: It is covered and studied in more detail in Chapter Six.



- Problems created by implementation of the restructuring policy: this barrier is investigated in more detail in Chapter Seven.

- Implementation of regulation is one of the barriers affecting the speed of implementation of privatisation. It is covered in more detail in Chapter Eight.

These factors affected implementation of the strategy, made the process difficult, thereby prolonging it. The researcher classified these barriers into four as follows:

1. Barriers with implementation of the privatisation strategy.

2. Barriers with employees.

3. Implementation of the restructuring barriers.

4. Preparing the legislation barriers.

This chapter and the next one offer some suggestions and propose frameworks to help the Government in eliminating or alleviating these barriers. The researcher worked on each one of these barriers independently, and built models for each one as follows:

- Classifying duties and assigning responsibilities of the privatisation strategy model. The “Efficient Model” will be discussed in more detail in this chapter.

- Process of implementation of the privatisation on the workforce model.

- Implementation of the restructuring process model.

- Preparing the regulations model.

All of the last three models will be covered in next the chapter.

This chapter will study the problems with implementation of the strategy. The study found several problems in the strategy as listed below:

- Allocation of different responsibilities between different organizations, which created layers of bureaucracy and delay.

- Involving many organizations and assigned several of the responsibilities to them led to interference between their responsibilities, mismanagement and lack of coordination, etc. This increased the complexity of the management structure and implementation of the process, as shown previously in Figure 8:1 'the existing management structure of the privatisation programme', Section 5.4.

- Assigning several tasks to these organizations while they were not fully staffed and lacked experience in performing some of them, such as planning privatisation, defining the obstacles, etc.

- The strategy mentioned assigning tasks to these organizations; these tasks were not specified for each organization. Some of the tasks related to planning and management of the programme were assigned to the public enterprises, which lacked the required experience.

#### **8.4 Conditions for success of implementation of privatisation strategy**

Privatisation is affected by different factors and that could create barriers or constraints on planning, managing and implementation of the process. The management team should have enough knowledge about managing and planning a privatisation programme, as a lack of knowledge in this area could be one of the problems affecting on the process. They need to be more flexible and should have more freedom during preparing several plans for implementation of the process by following and adopting different management techniques.

Success of the process requires the application of some conditions that could eliminate or reduce the barrier, else the process may be delayed. Some of the conditions could be applied on the process as follows: eliminating interference from different government organizations or some of the decision-makers in the country; selecting the organization's most qualified employees according to their experience and qualifications. All these could be achieved if the Government prepared clear plan, assigned all the responsibilities and all the organisations who will handle the programme, minimizing number of the organizations involved in the process.

There are several of tasks included in the process such as preparing or developing some laws, preparing, approving and implementing privatisation plans, coordinating all these works together, etc. Preparing and managing all these works are conditions for success of the privatisation programme. Concentration of the privatisation tasks and duties into a limited number of employees will have an effect on the programme. Therefore the process needs decentralisation of the several tasks during implementation of the process.

All the parties involved in the process should have enough knowledge about the process, such as the PC and PSEs. All these conditions would speed up the programme, eliminate the barriers and overcome the problems in the process. Additionally, the privatisation programme should follow clear procedures and



fully transparent methods in all aspects of the programme. Success of the privatisation needs cooperation and support from different governmental institutions.

The Privatisation Committee should be fully equipped to handle the programme professionally, and it should include several units such as planning, marketing, etc. to help them in their tasks. Some countries assigned several projects to the Committee, such as planning, studying, organizing and marketing the programme. A shortage of staff delayed all these works or resulted in weak studies, which will have a negative effect on the programme. This organization requires Government support to handle all these tasks in the programme, otherwise it will face a shortage of financing for studies, programmes and staff, lack of information, etc. Constructing this organization will allow for motivation, creativity and innovation in the programme.

#### **8.5 Process of constructing the “Efficient Model” for privatisation**

Privatisation tasks are interrelated with each other and some of them are dependent on each other. This emphasized the chain-like nature of the privatisation process, starting by preparing the plan for liberalizing the public economic activities, then commercializing the enterprise or the sector and ending by implementing and evaluating the privatisation programme. The process is critical and needs time for planning and building steps within each task. Several governments have faced difficulties in implementation of the process and some of them have failed, while others have been delayed and others have succeeded.

The researcher applied different methods to obtain a clear procedure for specifying the assorted privatisation tasks. The research used a method that could simplify the process and classify them into six phases. This allows for planning and managing the process in efficient way; and using the method of functional analysis, part of planning and management techniques. Preparing the plan allows the programme to give better results. Nokes (2003) mentions the benefits of the plan summarized in the follows points:

It forces people to think about what is involved in the project and their interdependencies; allows for the scheduling of usage of scarce resources, both within a project and across the firm; breaking down a project into separate tasks, each with identifiable output and deadlines, allows the project

manager to delegate effectively; clearly defined individual tasks are easier for people to focus on than a whole project in which they play only a small part.

This method studies the privatisation programme deeply, draws a map of how to sequence implementation of the process in more detail. It allows for determining and studying each level and task independently. This allows for studying each task or level in depth and all the matters related to them. This method helps in dividing the privatisation tasks into different levels and tasks between several organizations and authorities in the country.

The researcher divided the work into phases, the phases should be applied before proceeding with implementation of the process, and building them will be helpful for different developing countries to achieve success in their programmes. Applying this method reduces the complexity of the process, through analyzing the work requirements, tasks and studying the contents of each one in every phase of this process. It could be helpful in providing information for the next stages in the process and in developing the whole programme.

It increases the productivity of the management team and the individuals, and also in managing all the activities to meet the government's requirements in the programme. At the same time, it will distribute the work to several organizations, decentralizing the tasks and responsibilities between these organizations or in the organization itself. This allows for the team to concentrate on each task and produces good quality studies and results. It investigates, examines and assesses the problems in the programme before implementation of the process. Analysing the process by using this method shows the management team the method of sequencing the process and understanding the various activities in it. The method of applying the functional analysis goes through six phases, as follows:

#### **Phase 1, specifying the task**

Before proceeding in the privatisation process, the management team requires specifying the required tasks. It allows the team to prepare the task and the goals that could be achieved in the process of this task. They have to prepare methods of achieving this task. For example, one of the tasks that could be specified is transferring the enterprise to the private sector. The goal/s could be achieved by increasing the competition, reducing the size of the public sector, reducing the burden on the government budget, etc. Figure 9.1 shows an example of how this



step could be sequenced. The figure shows the privatisation process needs careful sequencing of the work.

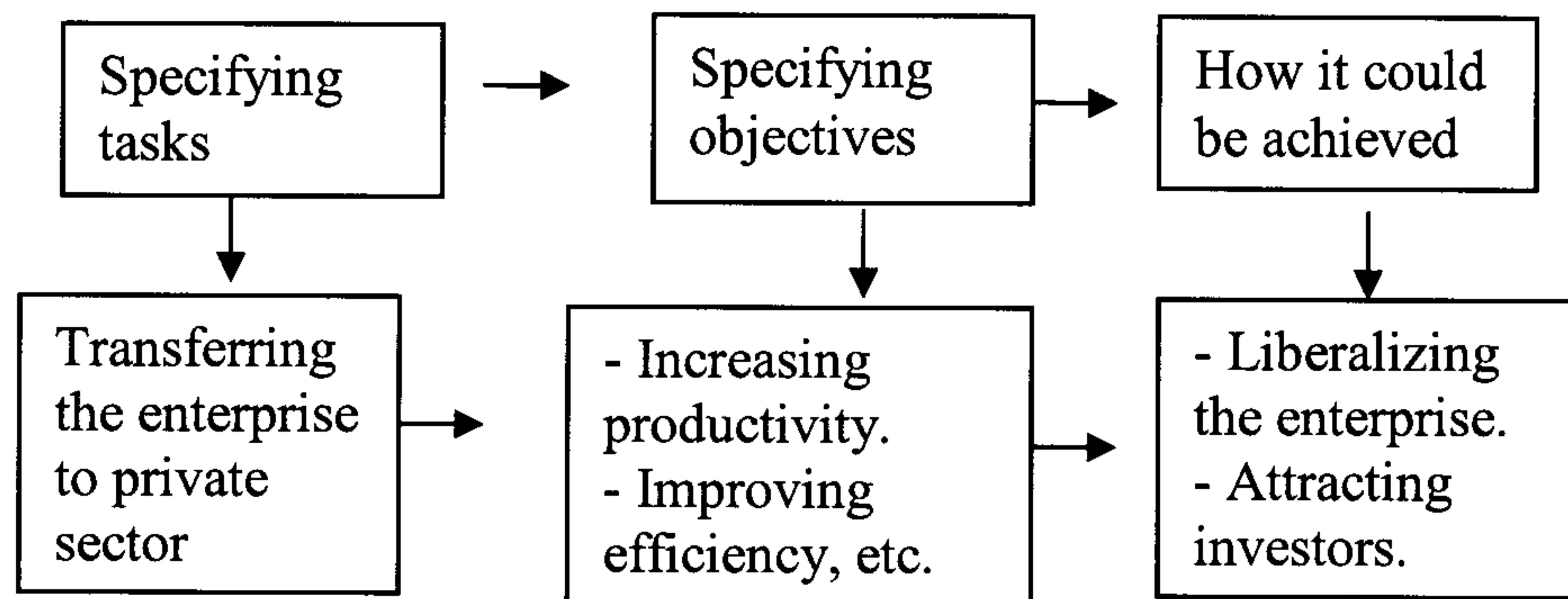


Figure 8:1 Method of specifying the tasks.

### **Phase 2, assigning the task to each level**

This step is one of the essential processes in the planning and input of all the information collected — and the requirements of the Government — under these levels and organizations. Requirements of this process need not be detailed but could be headlines acting as guidelines for the management and the working team. Assigning the task under each level and organization is very helpful in process of the planning and managing several activities. This smoothes and speeds up implementation of the programme and helps employees' to achieve the targeted objectives.

### **Phase 3, constructing all the levels and the tasks together**

After all the required data about these tasks is collected and the management team are satisfied there is enough data, they can compile it to form an overview of the whole process. This would be helpful in building the “Efficient Model” and classifying the tasks under several levels, which will help in structure of the duties and the responsibilities under each level. Building this model makes the whole process clear for all the organizations and the employees involved, which simplifies all the tasks in the programme and shows all the levels and tasks and their relation with each other.

Constructing the model is not an easy task and it needs knowledge of different subject areas, such as task priorities, sequencing the tasks with each other, etc. During the building of the model, the management team should not consider each level or task independently, as some of them are inter-dependent — they should study forwards and backwards from each task to avoid unnecessary overlaps.

Building the model or the framework could include detailed or brief information; the Government should decide which would serve them best and set guidelines for the team. Handling the process needs more experienced and expert staff in the programme; this allows the Government to hire advisors in this field. This is important for the team in order to avoid any possible risks.

#### **Phase 4, evaluation of the “Efficient Model”**

The advantage of this phase is in helping them to proceed for implementation of the model or it needs modification. This phase is one of the most important steps in the management techniques which could help in developing or changing the model. Evaluating the “Efficient Model” after constructing and assigning all the tasks to each level allows for the management team to tackle one task before another or vice versa, or sometimes dispense with the task altogether. Taking this decision depends on experience and the requirements of the country. This phase makes sure the model satisfies the enterprise or sector requirements.

Another evaluation could be applied on the process, which comes sometime after implementation of the model and which will indicate the success and the failure factors in the process. Many different changes could be implemented on the model if needed. This allows for the management team to evaluate the output of the process by applying some management techniques, such as checking profits, productivity, etc.

This process could be associated by evaluation condition of the enterprise. It could be applied in two phases: First, before implementation of the process, which allows for evaluation of the enterprise. Second, after implementation of the process; this gives the condition of the enterprise some time after implementation of the model on it, allowing evaluation of whether the model is efficient or what type of development could be applied.

#### **Phase 5, implementation of the model**

Implementation of the model in the enterprise or the sector comes after completion of the building of the “Efficient Model”, but before proceeding; the process needs the approval of the decision-makers. Implementation requires distributing the tasks between different departments in the organization. This method determines the responsibilities between these departments or sections in



the organization, and eliminates centralization of the process which will lead to bureaucratic delays. Distributing the tasks allows for each level, organization, department and employee to realize their tasks and how they could best be performed.

They have to make sure the framework is understandable and clear before starting implementation, and that each member involved in the process has adequate knowledge of the method of implementation; otherwise delays and problems could be created during implementation. The Government could prepare a training programme to educate their employees to make the process more understandable. Implementation of the programme is a commitment from the Government for going ahead with the process. Therefore they have to make sure that the programme is prepared professionally without constraints or barriers. A timeframe should be prepared; this is one of the most important steps that should be considered by the Government before proceeding, as it will make the implementation easier and smoother.

#### **Phase 6, managing implementation of the model**

This phase allows for all the organizations involved in the process to manage and monitor their tasks according to the constructed model. Managing implementation of the programme could combine more than one organization in the process, as will be shown later. When these organizations begin implementing the programme, they have to make sure the whole process is fully monitored and coordinated between them as well as internally in the organization or department. The model could separate the tasks to several levels which will make implementation of the model easier and smoother. This allows for assigning to each level specific duties, such as decision-making, planning and implementing the programme. Each level could be assigned to each organization and they have to make sure they have the capability to handle their responsibilities related to managing, monitoring and organizing each level and task in the model.

Implementation of the process could be mismanaged, and the possibility of failure is strong, as happened in other countries. This emphasizes that the process requires very strong supervision from an organization with a more experienced management team. Supervision of the performance and productivity of the

process and the other organizations could be carried out by the Privatisation Committee. At the same time, they could recruit new employees with more knowledge of the process. This phase needs the selection of a qualified management team with enough experience and proper qualifications related to the planning, designing and implementation of the privatisation process. Also the process needs some management skills in applying several methods.

In conclusion, all of these steps are very important: some of them are more significant than others, but all of them are integrated and dependent on each other. This process could be used by different developing countries; it is helpful for determining different privatisation phases. Figure 8.2 shows the sequence of these phases, and how it simplifies the process and makes the sequence clear between these phases. Each phase needs specialized knowledge in each field so the criteria for each employee to occupy their positions in the process should be carefully specified. Building the privatisation model needs expertise and a more knowledgeable management team, so these issues must be considered; otherwise the tasks will not be handled professionally.

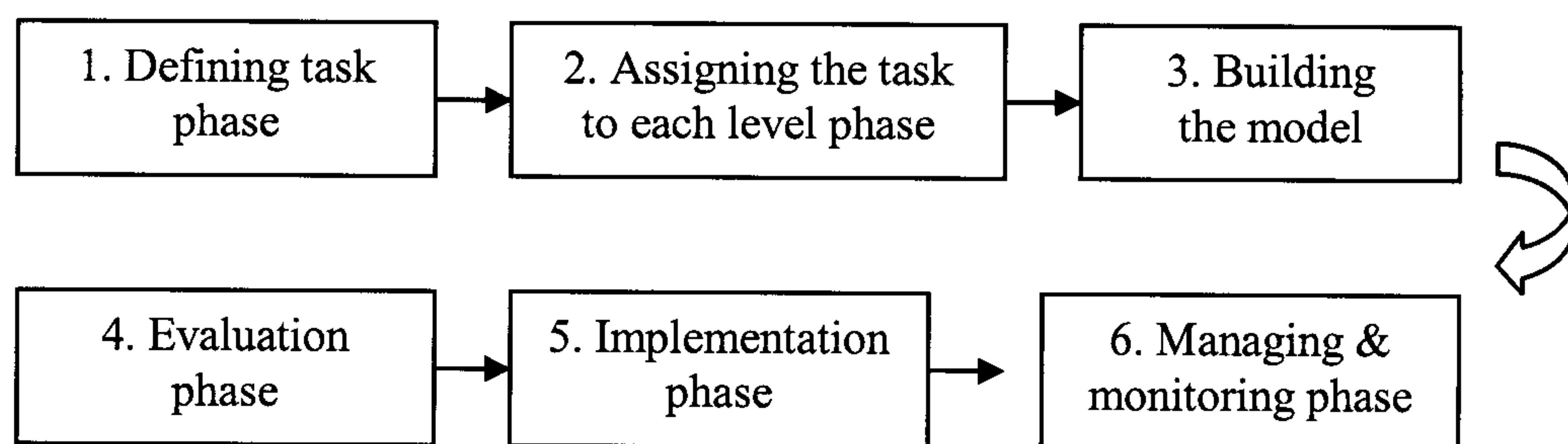


Figure 8:2 Sequence process of constructing the model for managing and implementing privatisation

### 8.6 Purpose of using functional analysis

The first reason for using the functional analysis was reducing the danger of the process on the employees, citizens, country, etc. (mentioned in much of the literature on privatisation). Implementation of privatisation involves many steps and tasks to ensure that the process is performed professionally. There are interrelated steps and phases between all the organizations and departments involved in the process. To make all these steps and phases clearer and understandable to the employees requires using a method similar to functional analysis.



To achieve this purpose, the researcher thought of using a method that could present to each organization and department in the process clear processes and procedures. He found that the functional analysis is a reasonable method that could describe each task individually, in more detail and in good sequence. There are sound reasons for using functional analysis in determining the privatisation tasks, as follows:

- It defines the tasks and helps in segregating the responsibilities between different levels and organizations. During preparation of the tasks it highlights any problems that may occur.
- It allows each organization to follow the clear and specific sequence of its tasks and responsibilities. In the beginning of building the phase, it could discover if the process may face difficult procedures which could affect implementation of the programme.
- It makes the tasks for the employees more understandable and shows them the forward and backward steps. It makes it possible for all organizations and departments involved to know the nature of their tasks; what it includes, the difficulty inherent in each task and in the process in general.

In addition the method has other benefits, such as:

- The process is long and complicated; this type of analysis may help to show any undiscovered problems in it. It classifies the tasks into different levels and types as such Basic, Primary (sub-step) and Secondary tasks.
- It helps in preparing a function diagram which allows generation of the tasks and gives clear ideas about what the process involves.
- It assigns the responsibilities to different organizations in the process. The method analyses and provides all the required tasks and objectives.
- The functional analysis helps in constructing all the tasks and levels under one model and presenting a complete frame showing all tasks with their relationships between the organizations involved or in the organization itself.
- Lastly, functional analysis has further benefits — success of privatisation depends on the participation of the investors and attracting them to the process, and applying this method helps in attracting and encouraging national and international investors. It makes the process clear in a more transparent way, which improves the investment climate.

- Applying functional analysis increases the readiness of the enterprise and the government for implementation of the privatisation; it could eliminate or reduce some of the problems that could face the programme. All these factors were advantages that helped the researcher select the functional analysis method in determining the process of constructing the “Efficient Model” for planning, managing and implementing the privatisation strategy in Saudi Arabia.

### **8.7 Recommendation for assigning the duties of the strategy**

For managing and implementing the process efficiently and achieving this, the researcher recommended the following procedures:

- Reducing the number of organizations involved in the process.
- Classifying and assigning the privatisation responsibilities between several organizations.

These recommendations will be discussed in more detail as follows:

#### **☒ Reducing the number of organizations involved in privatisation**

There are various purposes behind reducing the number of organizations:

- It allows for assigning and concentrating the tasks within a minimum number of organizations.
- It increases coordination and monitoring of the process between a limited numbers of organizations.
- Distributing the efforts between different organizations and authorities allows for several organizations to interfere in the process, while the model could distribute the tasks to a limited number of organizations.
- Distributing the responsibilities between these organizations requires assigning to each one specific duties, such as taking the decision, designing the plan or implementing the plan. This allows for classification of the tasks according to these duties and that will help in classifying the tasks at each level. In this case, the process needs the establishing of a model which will show all the tasks and duties under each organization. This simplifies and shortens the process and eliminates delay.
- This allowed the researcher to construct a conceptualized "Efficient Model" which will divide the responsibilities among three organizations, which will reduce the number of organizations. This helps in speeding up taking the decision,



reduces the number of organizations in the process and eliminates the interference among them in handling their responsibilities.

- They could assign to each level specific responsibilities to be performed and monitored. The links and coordination between those organizations will increase.

### ☒ **Classifying the privatisation responsibilities**

Promote privatisation needs allocation of several tasks; this strengthens the idea of Rondinelli and Iacono (1996): “Governments in countries promoting privatisation and market reform should reallocate functions and responsibilities to the lowest feasible level of government. They must develop an appropriate set of criteria for allocating functions among levels of government and between the public and private sectors,”.

The goal of classification of the privatisation responsibilities to different levels allows for assigning the process to a minimum number of levels, and allows them to working closely with each other to organize different tasks in the process. This method gives these levels direct responsibility for overseeing, supervising and guiding different privatisation work. Saudi Arabia could classify the process into three types of work, as shown in the next section.

### **8.8 Classification of management of the privatisation tasks**

To managing the various activities and still meet the success requirements of the process, the Government could classify the tasks into different levels. Each level should have a clear definition of the responsibilities. This helps in eliminating uncertainty in the process and in the level. Governments should assign these levels to the more professional organizations in the process, while assigning to each organisation their duties and responsibilities.

This will enhance the productivity of the working relationship and the performance between these levels. It is a good method for using and exchanging the information effectively. This method allows for the selection of a specific number of organizations to handle these levels, and the process can be managed, monitored and supervised professionally. The work in this section could be classified into four steps as follows:

- Classifying the work into different levels.
- Selecting the organizations who could handle these levels.

- Assigning the responsibilities to these levels.
- Specifying the privatisation tasks for each level.

### ***8.8.1 Classifying the work into different levels***

The researcher classified the implementation of the privatisation process into three levels as follows:

- **First Level**

This is the highest level: all major issues related to approving implementation of tasks should be handled by them. Different tasks should be assigned to them, such as approving the restructuring process on enterprises. This level is more powerful and should be assigned to one of the organizations that has this authority.

- **Second Level**

The second most important level in the process is where all the tasks related to planning, designing and managing the process should be handled. This level requires the organization to have more knowledge of the process and more qualified employees. The managing team in this level needs to know different management techniques to help them with their responsibilities.

They have to provide all the information required by the first level to support them in approving several tasks in the process. This level should provide the advice and support for developing, managing and implementing the programme in all these levels and in the country.

- **Third Level**

This could be assigned to the organization which is involved in daily activities of the enterprise. This level could organize and manage the performance and productivity of the implementation team. It could help them in close monitoring and supervising implementation of the process. All the above levels will be discussed in more detail in section 9.8.3.

This classification could help in several ways as follows:

- Each level could be responsible for specific duties.
- Minimizing the number of organizations involved in the process.
- Specifying the duties makes them clear for each one.
- Increasing the monitoring, management and coordination among those organizations and levels.



It is best for the success of the process that the government should specify duties and responsibilities for each level and organization. As will be seen throughout this research, each level and organization could follow specific and clear procedures. This arrangement is one of the major management techniques used to separate and divide the tasks among different levels and organizations so that they are managed and monitored properly. This makes implementation of the process smoother and eliminates the delay.

### ***8.8.2 Selecting the organizations who could handle the three levels***

Privatisation requires the Government to select those organizations which have the authority, resources and the knowledge to study, plan and implement the process. This emphasises the complexity of implementation privatisation and their work could be interrelated between several organizations. The researcher studied all the organizations involved in the process to select the appropriate structure for handling the responsibilities and tasks assigned to them.

According to the privatisation strategy, there are different organizations involved in the privatisation programme in Saudi Arabia, as follows:

- Royal Court
- Council of Ministers
- Supreme Economic Council
- Privatisation Ministerial Council (PMC)
- Privatisation Committee (PC)
- The targeted Public Enterprises (PEs) or sector for privatisation
- Other organizations involved directly or indirectly, such as Council and Chairman of Experts Commission, Advisory Board for Economic Affairs and Standing Committee, as shown in Figure 8.3.

The researcher investigated the assigning of the privatisation responsibilities to these organizations and analysed the suitability of each one to handle them. The analysis looked at different matters in each organization, such as who has more power, knowledge, etc. Results of the analysis are as follows:

- The Royal Court, Council of Ministers and Supreme Economic Council, chaired by the King (the highest authority in the country). These organizations have the highest power in the country.

- The Royal Court and Council of Ministers approve all the financial, political, social and economic decisions in the country, which keeps them busy with managing and approving different works. The SEC handles most of the investment and economic matters in the country and approves them.
- Privatisation is one of the economical matters assigned to them because it needs the preparing of professional studies and quick action by the decision-makers. The SEC is one of the organizations which are suitable for handling the first level, the more powerful and most important level in the process. The researcher recommended assigning the decision-making level to the SEC. This eliminates the responsibilities of The Royal Court and CM.
- Studying, planning and designing the privatisation programme could be assigned to the PMC and PC or Council and Chairman of Experts Commission, Advisory Board for Economic Affairs and Standing Committee. The tasks of these organizations are almost completely different.
- The PMC approves the process after the programme is prepared and studied by the Privatisation Committee, while the Privatisation Committee studies the implementation of the programme. At the same time, members of these two organizations are the same. Members of the PMC are ranked at ministerial level, while in the PC most of the members are representatives of their sectors and all of them are ranked as deputy ministers.
- Members of the PMC are available in the Supreme Economic Council and in the Council of Ministers. Also they are working under Council of Ministers which keeps them busy with this work. Plus they are handling their works as ministers.
- PMC work is more formal, while the PC is closer to practical work, such as preparing the process and planning. This allowed the researcher to assign this task to one of these organizations — the one close to planning and designing the process. Therefore, the planning, designing and managing level could be assigned to the PC.
- The implementation level should be assigned to the organization which is involved in the daily activity and close to the enterprise (such as the enterprise employees). The researcher recommended assigning this level and task to the public enterprise employees in the case of implementation of the process on the enterprise, but in the case of a sector or service this could be assigned to the



regulator of the sector. The next section discusses assigning the duties and responsibilities for each level.

### ***8.8.3 Assigning the duties and responsibilities for each level***

#### **▪ First level: Decision Making Level**

It should be the highest authority and the first level in the privatisation programme. The researcher proposed that this level be called the Decision-Making Level. In the management process, the decision-making should be assigned to the more powerful organisations to avoid the delay or constrain could happen from several organizations or individuals. Without assigning this task the process could work randomly and be faced by various barriers. The objective of allocating this task to this organization is to put the process on the right track without delay.

This level could be assigned to the Supreme Economic Council as mentioned in the previous section. Their responsibilities would be directly related to taking the decision to implement privatisation on different enterprises or approving other procedures taken by other levels in the process. Assigning the decision-making to one specific level could speed up the decision process from the highest economic authority in the country, which is chaired by the King.

All the tasks related to taking the decision-making in the programme could be assigned to them, including the tasks assigned to other organizations such as Royal Court and Council of Ministers. The Supreme Economic Council has the authority to take the decision and approve different tasks, such as giving approval for restructuring of the PSEs, conditions of sale and government returns, etc. Their tasks were not limited to these, however; there are other major tasks which could be assigned to this level and which are related to decision-making, such as eliminating the barriers or reducing the opposition in implementation of the programme.

#### **▪ Second Level: Planning and Management Level**

The planning process is one of the most important and basic processes necessary for the success of an organization or government in managing any programme. It is essential for the organization to study different types of management and consider the different factors that could have an effect on the process.

Privatisation work is interrelated with financial, technical, management and other fields, so it requires the assigning of one organization to plan, design, monitor and manage the process. This indicates that the process could be exposed to different problems, barriers and risks, and it needs experts in these fields to work on them.

Assigning the process to the PC would be helpful in producing a good volume and quality of studies while concentrating on methods of planning, designing and managing of the process. They could reduce or eliminate the privatisation risk and dangers to the economy for the employees, customers and the government. All these factors accelerate the preparation and approval of the decision-making. This level should consider their work in terms of being accurate, realistic and taking reasonable decisions. These plans should be monitored and controlled throughout the whole process. The Government should stipulate that the management team should not include their benefits in the process.

The planning process should not consider short-term benefits but rather the long-term effects of the process. This is very helpful in assigning to each unit in the organization the specific task of the planning process. Assigning this task to one specific organization is an indication of the Government's commitment that it wants to achieve the purpose of the process. This level could be handled by the most experienced organization in the privatisation process and it could entail the planning, designing and management of the process. Responsibilities of this organization could be assigned to the PC. It allows for them to carry out and perform the required tasks professionally with all the related duties and responsibilities with respect to privatisation.

The Saudi Government could take further action related to the size and capability of the Committee to handle this task. The Committee could be developed and enlarged to support them in their duties and managing the economical, financial, technical, operational, business administration and legal matters. They could add other units (such as planning, research, studies, development, etc.) to this organization to prepare them to be more professional and responsible for designing, planning and managing the programme.

These units would be responsible for studying, planning and collecting the required information related to the privatisation of different enterprises. Also the



Committee will collect the information about the experience of different countries that implemented privatisation. Providing such information will develop the country's skills in planning and managing the process, which will increase the concentration on their responsibilities in supervising and coordinating all the privatisation work.

Instead of the participation of different organizations in presenting the programme this could allow the Government to assign this organization to representing it in the whole process, on a national or international level. Assigning the planning and management responsibilities to one experienced level: this would help the Government to calculate the extent of the work needed and the types of barriers and problems associated with the programme.

This would lead them to search for alternative solutions. PC should be independent from any government organizations, so it can work without any governmental interference while maintaining the formal connection with SEC. This would allow the Government to prepare and develop a full study by professional organizations; that would ensure the strategy was clear and increase the willingness of investors to undertake a role in the programme. and also make the process clear for the implementation team.

- **Third Level: Implementation Level**

This is the level for handling the privatisation programme during the implementation phase. The process starts when all the needed data is ready, after the Committee has prepared and designed the programme. The process needs another organization to be involved in implementation of the programme in real life. The most important factor to be considered in the privatisation strategy is implementation of the process; this should be considered as one of the most complicated economical operations, so they have to follow extraordinary methods for implementation.

Designers of the process should follow different methods of implementation. Each government should see the process as a major challenge, and important in the pursuit of privatisation in the country. These enterprises have been working in the public sector for decades, so it is difficult to transfer them to the private

sector. This emphasises the role of the government in controlling and monitoring the process effectively.

Implementation of the process should have a strong connection with all the levels — decision-maker, designer and implementer of the process — to provide different information regarding barriers or constraints during the operation. This will guide and enable the implementation team to follow clear procedures and to proceed smoothly. This level could be assigned to the public enterprises targeted for privatisation, e.g. Saudia Airlines, Saudi Railway, etc., after selecting a professional team.

It is important to reduce the involvement of PSEs employees in the planning and designing the programme; their role should be concentrated on implementation of the process under the supervision of a professional organization. This would speed up the implementation of the process, and allow for other organization to plan, design and study the process more carefully and reduce delays. PSE employees could handle all the tasks related to implementation of privatisation works on the enterprises; however if it is on the sector or one of services, they could be assigned to the sector or service regulator (electricity, port, aviation, etc.) — this is not part of the research but could be one of the studies in future.

The implementation team should consider in their procedures achieving the objectives of the process. It is about taking effective control of the process. This method could be implemented professionally if all the employees in the process understand clearly all the procedures needed and what is required from them. In addition, the process should integrate the control with the planning process. Implementation of privatisation is a big task and needs huge effort, so they should avoid centralising the process on a small number of people because this could create bureaucratic delays which could in turn lead to failure of the process. Therefore, in such a process they have to involve the more experienced employees to obtain their cooperation with the rest of the organization.

In conclusion, the process needs strong coordination, monitoring and control of the process. These levels could help in managing and planning the process professionally between all the organizations involved in this framework. The “Efficient Model” helps in assigning the decision-making, planning and assigning



of responsibilities for the privatisation programme. This makes the relation between them strong enough to increase the monitoring and managing of the programme. This model eliminates the bureaucratic and communication problems among all the organizations previously involved in the process. It could reflect the real implementation of the process in Saudi Arabia.

Figure 9.3 shows the importance of implementation of this framework, because it eliminates a number of organizations in the process and assigns the tasks to a limited number of organizations; this affects the programme positively and increases the government commitment to implementing the programme. The researcher tried to avoid establishing a large complicated model or establishing new organizations

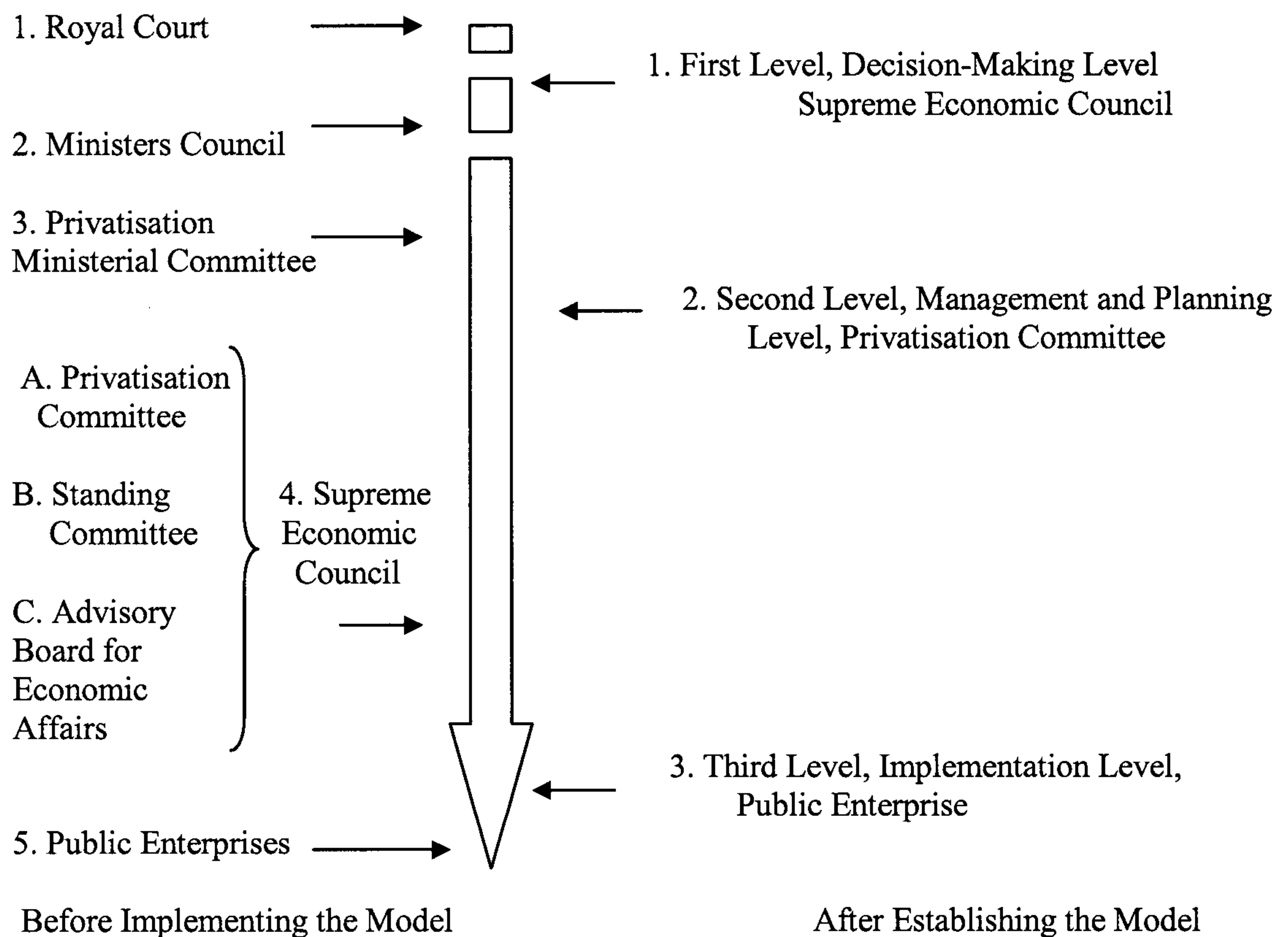


Figure 8:3 Comparison between before and after implementation of the model on the privatisation programme.

The simplicity of the model makes the process understandable and clear to all the organizations involved in implementation of the programme. It provides an opportunity for the Government to maximize the benefits from the privatisation process and develop the programme on the decision-making, planning and management and implementation levels.

## **8.9 Methods of implementing the functional analysis on the process**

This allows for classification of the privatisation tasks into three levels and each level was assigned to one of the organizations involved. This means that the privatisation tasks would be classified into three levels. All these forward steps allowed the researcher to divide or break up the privatisation tasks/works under each level. The process requires that the tasks which are needed in the programme be studied and specified, and then each task under each organization has to be classified. In this section the researcher combined all the three levels and their tasks, name of the organizations handling them and their sub-tasks. It makes clear how the researcher used the functional analysis process to benefit the model design. The process starts with the follows steps:

- First, classifying the privatisation main tasks into three levels:
  - Decision Making Level.
  - Planning and Management Level.
  - Implementation Level.
- Second, assigning these works to different organizations:
  - Supreme Economic Council.
  - Privatisation Committee.
  - Public sector enterprises employees.

In the third step the researcher started searching for tasks which could be assigned to the above levels and organizations. The tasks are summarized as follows:

- Specifying the required tasks in the programme.
- Selecting one of the three levels (Decision Making, Planning and Management and Implementation Level) and specifying their tasks.
- Listing all the tasks under this level allows the researcher to arrange them together by studying their priorities with each other.
- All the above steps could be repeated for all the three levels.
- Evaluating volume of the data and tasks collected for each level.

The fourth step, after all this has been done, is the appropriate time to build the “Efficient Model” for all the three levels together; in the fifth step, the decision can then be taken to start implementation of the process which includes assigning the tasks to the management team in each organization; lastly, evaluation of



whether the model will work for the country or not. This step is not part of the research but it could be implemented as one of the future studies.

The next section gives more detail about classifying the tasks.

### **8.10 Classification of the privatisation tasks**

Classification of the tasks includes the follow steps:

- Listing all the tasks that could be included in the process.
- Classifying the tasks under the three levels.
- Arranging all the tasks under each level.
- Combining all three levels under one model.

The “Efficient Model” shown in Figure 9.4 outlines all the elements in the model for assigning the privatisation duties and responsibilities.

#### **8.10.1 First Level: Decision-Making Level Tasks**

This level is directly responsible for taking the decision and overseeing the whole programme. It should have a strong relation with the planning and management level because decision making is the core of the planning. As mentioned previously, this level could be handled by the SEC, and their tasks are as follows:

- **Overseeing the whole programme**

They generally could evaluate the benefits and the results of implementation of the programme on the country, citizens, investment environment, etc. It could create an impact on the country which will lead to various financial, economical and social problems, so they should be involved in supervising and monitoring the programme in different fields.

- **Approving taking the enterprise or the sector for privatisation**

If the results of the feasibility study are completed and they found that privatisation could be successful, then both the PC and the PSE could proceed in taking approval for privatizing. PC could present a brief report about the feasibility of the study; it would not be necessary to take the complete study for approval because this could delay gaining the approval. Therefore, they could submit summary report about the study.

- **Approving the plan for implementation of privatisation**

Before proceeding in the process they should prepare the plan or the programme of implementation. The plan will make the process clear for all the parties involved in the operation. It should not include all the details, but it could prepare

a schematic or guidelines. The plan should show the sequencing of the process and the benefits from implementation, otherwise the approval of the plan could take a long time. It must be clear and understandable for all the parties.

▪ **Approving the plan for implementation of restructuring**

This task consists of preparation of a plan for implementation of the restructuring process. It could include implementation of different types of restructuring, such as financial, workforce, technical, structural, or whatever types they thought the enterprise or the sector needs.

▪ **Approving the plan for implementation of corporatizing**

Before proceeding with implementation of the process, the Government could introduce some private sector techniques or methods to improve the sector's capability in the market. The decision-makers' approval in this stage is very important because some of the procedures could create major changes in the organization and may need some financial and technical support.

▪ **Approving the plans for resolving the barriers, and resistance groups.**

Most of the developed and developing countries' programmes faced a variety of financial, employee, technical and structural barriers. The decision-maker's approval is needed before these barriers can be eliminated. Giving the approval should explain the barriers facing the programme and how strong these barriers are. Planning and management and implementation levels could work on preparing a plan to deal with barriers. They have to make sure the decision should not have an effect on the financial or operational conditions of the enterprise or the employees or on the country.

▪ **Providing some incentives to the investors**

Governments have applied some restrictions on their economy, but when they took different economic activities to the market they found difficulties in liberalization or in attracting investors. They could present some incentives to attract them and allow for their participation. These incentives should be studied carefully to avoid any conflict or barrier during implementation. They have to consider there are several types of incentives that could be presented to investors.

▪ **Approving establishing of regulators**

Before privatisation, these sectors and services were working without a regulator, which created a monopoly, but after implementation of the programme the process needed elimination of the monopoly and the introduction of competition.



This process needs a regulator and approval from the decision-makers for establishing this type of organization. This makes the process more organized.

- **Approving development or applying new legislation or laws**

There is some legislation which did not promote the participation of the private sector in the different economic activities or others. However they could issue some new legislation or apply some changes to certain older laws to increase the participation of local and international investors in the sector. They have to consider that this new legislation should not affect the enterprise or economy of the country but smoothes implementation of the programme.

- **Approving of the ownership scheme**

After the PC prepares the study on the types of ownership to be used, the study should be approved by this level. The scheme could include more than one owner. Taking the decision-makers' approval on implementation of this step could eliminate the barriers to ownership. There are a variety of ownerships that could be used, e.g. employees, citizens, local or international investors, governmental funds, etc.

- **Approving the priority between different sectors**

After applying some criteria on variety of sectors or enterprises, they should prepare comparisons between them in terms of the sectors which have major problems. This study could be presented to the decision-makers to take their approval on selecting one or a list of enterprises or sectors for privatisation. Approving this study needs attaching a brief study and reports to explain the objectives and how they could be implemented.

- **Approving the timeframe of implementation the programme**

After all the studies have been prepared by the other levels, including the timeframe for implementation, the decision-makers must give approval for the timeframe of implementation of the process. The time of implementation depends on different factors which should be present in the country, such as economical and political stability, strong stock market, etc.; all these factors should be considered before approving or proceeding with the programme.

- **Approving the sale plan**

Some developing countries have been looking for diversity of income; one of the ways this could be implemented is by selling part of their investment in these activities. The decision-maker is the only authority that has the power to proceed

with the sale of the property or the enterprise. The management and planning level should prepare a full and clear study which will help in speeding up the decision-making process. The sale plan could be implemented in stages.

- **Approving the percentage to be transferred or sold**

After approving the sale plan, the management level should recommend the percentage that could be transferred: this step and the above could be combined in one. Most countries keep the highest percentage while releasing the rest to the citizens or to the investors. Sometimes approving the release of this percentage is not easy because most of the governments want to keep this sector under their control; to eliminate this, they have to prepare a full document study to include the advantages and disadvantages of releasing this percentage.

#### ***8.10.2 Second Level: Planning and Management Level Tasks***

These tasks, which could be assigned to the Privatisation Committee, are as follows:

- **Managing and monitoring the privatisation process**

This is one of the main tasks that could be assigned to the PC. This task helps in guiding all the organizations and authorities in managing and organizing the process and eliminates the constraints that could face the programme. Required steps include preparing methods of managing and monitoring the programme. It should be prepared and handled by the most qualified management team. They should be selected carefully according to their experience in managing this type of work. They must implement different management methods and skills because this task is like a chain; if it is not managed properly the whole programme will be affected.

- **Setting and developing stages of the programme**

After assigning the management and monitoring of the process to this level, they could set up the implementation stages. Privatisation is a major economic operation with many dangers. Failure in any of the steps could affect different matters. Before preparing the privatisation plan preparatory steps are required to make implementation of the next step smoother and easier. This step could be schematic, showing the sequences of the process and tying them all together.

Setting the stages of implementation of the programme is a basic step for the plan to work efficiently because it indicates the major requirements for performing the



process. Therefore this emphasises the importance of this step to the process because it provides some guidance information. Setting the stages of implementation is one of the basic and first steps that should be prepared before the programme starts. Most of the works in the process use this step for reference and guidance. It needs someone who has knowledge of different privatisation works.

- **Preparing the privatisation plan**

The next step that could be assigned to the PC, after the setting and developing stages of the programme, is preparing the plan. This is the second very important process to be prepared. The whole process depends on the plan so it is one of the main tasks assigned to this level. However, the plan is one of the most complex steps in the process and should cover all the steps in the process in more detail and their sequencing with each other. This step needs the collection of huge amounts of information on other countries' experiences; this allows them to list all the information needed in the plan to avoid omitting any information which could delay the process.

After all the necessary information for the plan has been gathered the team should arrange it to construct the plan. The proper way for preparing this step is using a step-by-step procedure. It could list all the required steps shown below or more, depending on the country and enterprise needs. It could include the proper time of implementation of the process and proposing the method of privatisation that could be used on the enterprise. This step and the previous one are more related to each other; however, this step gives more detail about the process and the proper sequence that could be followed, but the previous step could list all required tasks without detail as a schematic.

- **Preparing the objectives of implementation**

Determining the objectives for implementation of privatisation is a very important step in the process; the management team will use these objectives as guidelines or a target to be achieved. The team will have to consider that these objectives must be reasonable and that some of them could not be achieved in the short term. They have to consider that some of these objectives need preparatory steps in order for them to be achieved; for example, improving the investment

environment in the country requires liberalization of different economic activities, changing some laws.

- **Preparing a comprehensive privatisation plan**

This plan is different from the previous plan because it deals with all the matters affecting implementation of the privatisation programme, such as employees, restructuring, legislation, banking sector, stock market, etc. The plan should be prepared to show the relation between all these factors, the effect of each one on the process and the method of dealing with each one.

This plan gives a general view of the process and its related issues; it could be prepared by different departments and units, with each one handling one task, and finally working as a group to produce the whole plan. The purpose of producing the plan is to show the management level the relationship between all organizations involved in the process and its tasks.

- **Proposing and applying changes to the privatisation plans**

Countries prepared their privatisation plan on a rushed basis without covering different matters related to the programme, so this allowed the country to modify the existing strategy; for example, Russia found different problems in that their programme followed unclear procedures. Therefore before implementation of these changes, this level should search for all the problems in the programme that should be listed and investigated in more detail. This allows for the preparation of new plans covering all the missing data and problems in the plan. The plan should deal with all the problems, rectifying them and avoiding any changes in the future.

- **Evaluating performance of the sector or the enterprise**

Before proceeding in studying the feasibility of privatisation, they should evaluate the performance and productivity of the enterprise in a variety of fields. This step depends on the study prepared at the implementation level which covers studying the existing condition of the enterprise. It clarifies some of the problems in the organization before proceeding with and analyzing the feasibility of privatisation.

They could prepare for each field specific criteria such as annual income and losses, etc. After applying these criteria the team could specify and classify the problems into different fields. Then they could categorize these sectors or enterprises to different levels, the most problematic and the most critical.



Evaluation of the performance could include reviewing financial, technical, operational reports, records, documents, etc.

- **Evaluation of the sector or the enterprise assets**

This step is similar to the previous step and depends on the report or study which will be prepared and submitted by the implementation level. It is concerned with evaluation of the sector or the enterprise assets and property. Each enterprise or sector has huge amounts of assets and property, so after evaluation of the performance and before implementation of the privatisation the team should evaluate the size of the assets and property owned by the enterprise.

This step is one of the first steps that should be implemented because this would allow the government to evaluate the volume of the assets and property and decide which ones could be released or kept. It allows them to proceed in the process without selling or restructuring some of the enterprise property. The evaluation should include the major assets and property owned by the enterprise, such as equipment, land, facilities, etc.

- **Analyzing feasibility of privatisation of several enterprises**

The Saudi Government targeted more than twenty enterprises and sectors for privatisation. The list did not consider different aspects or factors such as priorities, low performance, loss-making or profitability. It should review the list and apply other mechanisms or specify some criteria to determine which types of enterprise should be privatized. This task acts as a guideline for the team to show the condition of one or two enterprises ready to implement privatisation.

This is a preliminary study which should be prepared before proceeding and taking action regarding determining the priority between these services. The analysis should cover some major items such as: Profitability of the sector or the enterprise; Low/high performance and productivity; Strategic or non strategic; Small/large enterprise; Easy/difficult for implementing privatisation and; The enterprise is market orientated.

- **Determining the priority between the sectors for implementation**

This level could prepare a study comparing several enterprises or sectors; this comparison should include matters such as loss-making, under-utilization of resources, etc. The priority should be according to implementation of some

criteria, such as major problems in the enterprise or the sector. Therefore, they have to prepare different studies and draw comparisons between these sectors and enterprises.

After selecting the list of candidates, they could consider the following steps:

- Selection of the proper candidate found to be more ready for privatisation.
- Selecting the sector which is more attractive for investment with good profitability and productivity.
- Considering the candidate with commercial viability of privatizing both the current and future.

▪ **Preparing a full plan for feasibility of privatizing (enterprise or sector)**

This plan could be prepared after the decision-maker has approved implementation of privatisation on the recommended enterprise or sector in the previous step. It differs from the previous step, which is concerned with studying the feasibility group of sectors or enterprises, while this concentrates on more detailed study for one sector or enterprise.

It could cover the financial, operational, administrative and other conditions of the sector, by reviewing reports and records. These fields should be studied in more detail, in order to identify all the success and failure factors and the problems in the enterprise. This step needs specifying of some criteria in order to give all the employees clear procedures to follow. This task is studied in more detail in Section 5.12.

▪ **Recommending the methods of privatisation that could be used**

When the feasibility of privatisation study is prepared, it is the right time to prepare types of the methods of privatisation that could be used on the targeted enterprise or the sector. They should recommend the proper method which will work with their requirements. Studying different privatisation methods allows the management level to recommend the most suitable one. It must recommend the most appropriate method for privatisation because each enterprise and sector has different criteria, condition and problems from each other.

Selection of the method depends on the type of enterprise and the country circumstances. After specifying the targeted enterprise for privatisation the



appropriate privatisation method which could be applied on the enterprise must be chosen. The researcher described this task in more detail in Section 5.13.

- **Preparing the plan for implementation of the privatisation method**

After selecting the method that could be implemented on the enterprise, the time is right for preparing the plan for implementation of this method. Privatisation has various methods that could be implemented and each one differs from the others. Some of them could be partnerships between the government and investors, while others could be assigned fully to the private sector.

The success of the government in implementing any method of privatisation depends on how this plan is prepared and how much it covers. The plan should make the responsibilities between the government and private sector clear — omitting any issue in the plan could create future problems. This plan is very important because it lists and covers most of this method's requirements.

- **Developing a plan to dealing with different barriers**

As mentioned previously, a privatisation programme could face various barriers and constraints, and the management team should prepare plans for all types of barriers. These barriers could be in different fields, e.g. financial or legislation. The plan should indicate methods of dealing with these barriers which will help them to avoid any delay in the programme.

This step needs dealing with different matters sensitively, so the plan should investigate and deal with these barriers in greater depth to avoid any consequences on the various steps of the programme. The management team could study the experience of other countries which have implemented privatisation; that could help in obtaining a full idea about the types of barriers which could be faced in the programme. The team will have to provide options for resolving the barriers.

- **Develop a plan to deal with different opposition and resistance groups**

The privatisation programme could affect various groups, including the enterprise employees, citizens, public sector, private sector, etc.; they could constitute resistance or opposition groups to the process. Most of the programmes in different countries were affected by this factor, which delayed implementation of

their programmes. The plan should be prepared clearly, follow an easy method of implementation and deal with different parties in the process.

Preparing the plan makes the process clear for all parties involved and shows methods of dealing with them. This result emphasises the importance of establishing a plan to deal with these groups. The plan should consider dealing with each group independently, sensitively and without harm, otherwise their opposition could increase. They could use advisors to guide them in this step or other required steps.

▪ **Determining the restrictions on ownership**

The Government should determine the types of ownership that could be used as follows: Ownership by citizens; by local investors; by Government funds and; by foreign investors. Preparing this step makes the task for the Government easier and smoother in selecting type of the ownership. Determination of the ownership requires studying the advantages and disadvantages for the country, because participation of some groups such as foreign investors could affect the economy and citizens. They have to look at all these matters carefully because attracting the investors in the short run is good but in the long run could affect other areas, such as increasing unemployment.

▪ **Preparing the privatisation marketing plan**

When the programme is ready, the first step that could be implemented is establishing a marketing unit within the PC and in the enterprise as a preparatory step. This unit can work efficiently and marketing the programme in a professional way. It needs selecting a team with enough experience and handle marketing of the programme on the national and international markets. Preparing a full plan helps in attracting the investor locally or regionally and promotes implementation of the process. It should be designed on different levels as follows:

- First, it should be designed internally inside the enterprise, with provision of a training programme for the employees.
- Second, they should study different marketing programmes and select the one which will work with the enterprise marketing plan and with different markets.
- Third, the team could apply different marketing techniques to promote the privatisation policy and attract the local and international investors and



stakeholders; finally, the marketing plan can be implemented on the local and international markets.

This plan needs the provision of statistical and economic analysis to prove how professionally this study was prepared. This analysis could not be prepared by the marketing team but by the people who are working directly on the programme. Some of the sector lacks experience in this field, so marketing the programme could be assigned to professional agents, depending on the requirements and financial condition of the sector.

- **Preparing a plan for the public**

Public acceptance of the need for implementation of privatisation is very important, because it leads to their cooperation. It should be different from the plan mentioned in the marketing; however, it should be simple, clear and should avoid any mathematical statistics or complicated processes. This plan should build a communication plan with the public to gain their support. It should cover the main points in the programme, such as the advantages and benefits the public would derive from implementation of the programme.

- **Preparing a plan for the media**

After designing the plan for the public, the management team could proceed to present this plan in the media. Preparing the programme requires studying the different types of media that could be used. The study should select the proper method to advertise the project in terms of reaching the target audience who could affect the programme. In addition, selecting the type of media depends on other factors, such as cost and timing.

Preparing the plan emphasises the commitment of the Government for implementation of the programme. By presenting the plan to different parties in the country the Government could receive some suggestions and comments on the process. The plan could cover financial, operational, technical, business development, etc. matters in the enterprise. The plan should be prepared to reach the maximum number of the public.

- **Preparing plan for supervising the consultants/advisors**

Public enterprise employees may lack the appropriate experience but the Government could hire advisors to work with them. However, the Government

could assign the supervision of these offices to the management and planning levels because they have more experience than the enterprise employees. Implementation of this step needs strong communication between these two levels regarding supervising these offices.

Privatisation tasks need good communication and relation with all the organizations, advisors, etc in the programme to ensure success. Different methods of supervising and evaluating performance could be deployed. This emphasises the PC needs support from the Government through providing technical and financial support and bringing in experts in different fields.

- **Preparing the sale plan**

The process of selling different enterprises or sectors to the investors or to the public needs preparation of a method of sale. The plan should include the different methods of sale, such as trade sale-auction or negotiated sale, share flotation, mixed sale, etc. Selection of the type of sale depends on the condition of the enterprise and the country; governments have to select methods suitable for their country.

This task needs knowledge of different methods of sale. Preparing the plan makes implementation of the task easier and eliminates the obstacles. It could need the preparation of economical and financial studies to support the plan. They could study using different markets if possible.

- **Determining the percentage to be released for sale**

If the governments decided to sell a part of their shares in different enterprises or sectors, they have to determine the percentage to be released. Their study should include economic analysis and the reasons for taking this percentage. They have to select the percentage or the portion which will affect the productivity and efficiency of the enterprise positively.

At the same time, they have to consider that transferring this percentage could be a gradual process, so they could prepare a periodic plan, and in each period transfer a percentage. This percentage should not affect the enterprise or the investment environment in the country.



- **Preparing a timeframe plan for the implementation**

After all the studies have been prepared, the planning and management level and the implementation level could propose an appropriate schedule for implementation of privatisation on the enterprise. Different factors inside or outside the enterprise or the sector may have a major impact on the programme, as happened with some African and Latin American countries. Before releasing the enterprise or the service for privatisation, the governments have to study different factors such as market conditions, the banking system, etc., so they should specify some dates, prepare a comparison between them and releasing the final schedule.

The strategy of privatisation in Saudi Arabia made the implementation of the programme open-ended, which affected the whole process negatively and left it open to procrastination. First, they could prepare schematic time plan before preparing the final one, the team should conclude its study by preparing the actual implementation timeframe plan. Implementation of the frame should avoid the conflict and simultaneous implementation of the process between different enterprises and services.

This frame allows the citizens and investors to know the time of implementation of the process on these sectors; they could then organize themselves to participate in the process and provide the required financial, technical resources. At the same time there are other organizations, such as the financial institutions, stock market, etc., which should know about the implementation of the process so that they can prepare whatever is needed for success of the process. They have to arrange their organizations to accommodate these operations, so it is important to make sure the timeframe is prepared and advertised in a professional way.

- **Preparing the plan for restructuring**

There are various enterprises that have multiple problems, and implementation of the restructuring becomes very important in improving their condition. The restructuring plan could be prepared individually for each field or comprehensively with other fields. Combining many fields together allows for the government to establish a plan that could be called the “restructuring framework”. Producing this type of plan depends on receiving different study reports from other units in the organization; this emphasises the importance of producing a

variety of studies in financial, economical, legislation and physical matters in a professional way, or the process would be delayed.

The Government could reduce the complexity of this type of work by preparing each one independently, and then combining them in one framework. Preparing the plan should consider the minimum cost and time needed for the process. They have to consider that the cost of the restructuring could be high, so it has to compare the possible consequences of proceeding with the programme against those of not implementing it. This depends on many factors, such as loss-making or low productivity or performance in the enterprise. This matter is discussed in more detail in Chapter Seven.

▪ **Preparing the bidding plan**

After the decision-makers' approval for privatisation of the sector or the enterprise, they should prepare the process and method of bidding for the project. When dealing with professional contractors and investors, the process needs the preparation of a clear bidding process with all the required documents. The plan could include some data about the contract and its content such as conditions of participation of the contractors, experience, qualifications, financial warranty and type of documents required, etc.

This task requires a management team holding the proper qualifications in contract administration and several legal matters. One of the steps that should be prepared in this step is preparing the bidding contract. The contract should cover matters such as period of the contract, cost, etc.

▪ **Reviewing the bidder document**

After implementation of the programme, some countries sought different methods of evaluation, which had a negative effect and delayed the process. After the documents have been received from the bidder, someone must check and analyse them. These documents include a variety of financial, legislation, technical and operational information. This task could be assigned to the contract administrator because the process needs people who have detailed knowledge of contract management.

In addition, this unit should be supported by other disciplines to manage the contract professionally. The Government should keep this unit under close



supervision and monitoring, because it has most of the confidential and secure documents from the bidders. The study and selection of the method of evaluation of the bidding makes implementation of programme easier and smoother. At the same time, the process is made clear for all the management team and investors prior to implementation.

### ***8.10.3 Third Level: implementation level tasks (Public Sector Enterprises)***

Privatisation implementation is one of the challenges facing most of the developing countries. In overcoming all these challenges and obstacles, the government should establish an office in the enterprise to handle all the work related to implementation of the programme. However, establishing such an office will not solve the problem unless the enterprise assigns handling of this process to a more qualified management. Transferring of the public enterprise to the private sector could include risk on the employees, financial position, etc., or on the economy of the country. This strengthens the importance of the office and could eliminate or reduce privatisation risks. This level could handle the following tasks:

- **Managing implementation of the process**

This step includes preparing all the required steps for implementation. The enterprise should make sure all the success factors are available such as selecting the team, gathering the required information, etc. This level needs selecting of the most qualified and more experienced employees.

- **Studying the existing condition of the enterprise**

This study is the basic and most important in relation to the other studies prepared for privatizing the enterprise, because most of the other studies are dependent on this study for issues such as preparing a restructuring plan, implementation of privatisation, etc. The public enterprise employees are the best suited to handle this task because they are more involved with the enterprise and will be more aware of its problems.

They could use some of the consultants or advisors to help them in preparing this task. The study should cover the different businesses in the enterprise and employee, technical, financial and other matters related to implementation of the privatisation

This does not mean these are the only matters which could be studied; a variety of fields should be included in the study. This could help the Government to obtain a full idea about the problems in these organizations and to prepare different financial, technical, management and other plans to improve the enterprise condition. Most of the employee matters were studied in Chapter 6.

▪ **Implementation of training to the employees (enterprise or sector)**

Teaching and educating the employees will present to them the advantages and disadvantages of taking these organizations to privatisation. This task could be assigned to the office mentioned above after a training programme had been put in place and a plan prepared by some of the consulting offices. This makes the process clear and understandable to all the employees and all levels in the organization. It reduces their resistance and the number of obstacles. At the same time, this method explains the benefits the employees could obtain.

▪ **Preparing the enterprise or the sector for privatisation**

Before implementation of the programme, the enterprises need preparatory steps such as hiring qualified employees, establishing a marketing unit, etc. They have to use some of the private sector techniques that allow directing the enterprise activities to the market. Applying this method helps the enterprise in changing different methods used previously and searching for the customers' requirements.

Implementation of this process helps in developing the enterprise in different fields before competing with other new companies in the market. There is a variety of methods that could be applied for developing the enterprise condition, such as renovating existing facilities, introducing accountability, etc.

▪ **Implementing of the restructuring plan**

Implementation of the plan needs strong communication between the enterprise (Implementation Level) and the PC (Planning and Management Level), because the plan could face some obstacles and urgent action may be required to prevent them. Before proceeding with implementation, the management team should review the plan to make sure that all information needed is included.

The implementation team should have knowledge on how to proceed with the process in different fields otherwise they could run into difficulties in the process. The restructuring plan could cover all the fields in the enterprise, e.g. employees,



management, financial, etc. However, it would not cover all of them because each enterprise will have its own unique problems.

- **Implementation of the privatisation plan**

Implementation of the programme comes after the process has been prepared by the planning and management level and approved by the decision-maker. This allows for carrying out the programme on the enterprise. There are some problems that could arise during implementation, so the assigned team should report to the planning and management level to consider that in the future and obtaining some recommendations from them to rectify them.

As mentioned previously, implementation is a major challenge for the country and the employees; this emphasises that the plan should be studied and prepared very well. They have to consider getting the maximum benefit from all the economic activities in the enterprise and they should make sure the plan is implemented in a professional way.

- **Preparing the enterprise for partial or full sale**

Studying the condition of the enterprise could raise different problems, and that would allow the Government to improve different fields in the enterprise. One of the recommendations or suggestions of the study could be partial or full sale of the Government share to the private sector, citizens or to the employees as the Saudi Government sold 30% of their shares in the STC to the citizens and Government funds.

This helps in selling part or all of the enterprise shares to the investors or to the citizens. This needs the preparation of different documents for changing the enterprise ownership from the public to the private sector, and speeds up the process.

- **Identifying the barriers or constraints in the programme**

This task was not assigned in the privatisation strategy; the researcher assigned this task to this level as they are very close to the daily activities of the programme, so they could search for the types of barriers and obstacles that could emerge. They could report on these barriers to the planning level so that it could prepare a variety of studies to deal with them. However, this task is new for them,

so they could hire advisors to support them in performing it. This task should deal with each barrier independently and in a more transparent way.

- **Preparing criteria for selection of the advisors**

There is a lack of experience in implementation of the programme and selection of the advisors in several fields, so it would be necessary to hire financial, technical, etc. advisors after preparing some criteria for selection. Before selecting them, each enterprise should specify their own criteria and the objective/s of hiring the advisors.

Preparing these criteria will help the enterprise employees in the selection of the advisor/s. They have to avoid preparing criteria that would be unachievable, so the selection of these criteria should be studied carefully. Each enterprise could hire more than one advisor to achieve the required result.

- **Selection of the advisors**

After specifying the criteria they could use them for selecting the advisor and they could utilize different types of advisors in a variety of fields. The advisors could be local or international but the selection depends on who satisfies the enterprise's requirements. Selection of the advisors needs the preparation of advertisements for the local and international markets that clearly specify these requirements. Various factors, such as experience in this field, cost of the advisor, time required, etc., affect the selection of the advisors.

In addition the type of the work required from the advisor will also have an affect. This step requires preparation of a contract between the enterprise and advisor that should consider several issues such as duration, cost, experience and other requirements needed by the sector or enterprise.

- **Managing the advisors' tasks and work**

This task depends on how the contract has been prepared between the enterprise and the advisor. Managing the advisor should include supervising the productivity and quality of the studies produced. They could monitor and supervise them by establishing a timeframe for the submission of the required studies in the contract. They could consider in the contract that the programme has limited time and the advisor should be restricted to this time.



The contract should include the types of studies required, the limit for each one, method of using the study, etc. Managing the advisor reduces mistakes and keeps the tasks under control, which will help the management team in implementation of the study.

▪ **Announcing the programme**

This informs the local and international investors and the public as widely as possible about the process; this could involve different interests in the programme. After the programme is prepared for the media, there are different media methods that could be used for advertising and announcing the programme on local, regional or international levels.

It could be helpful in attracting different parties to the programme — the team could visit different parts of the world, using local media in some developed and developing countries. Announcing the programme depends on preparation of the plan by the planning level. This emphasises the process should be coordinated very well between all the involved organizations.

In conclusion, privatisation is one of the economical operations which work as a chain, and success of the process depends on how the sequence is prepared. Following the proper sequence enables all the organizations working on the management of the programme to avoid mistakes and take the process step by step. Applying this method reduces the dangers of the process and helps the country to avoid failure from the beginning.

The Government should make sure the managers at different levels fully understand the process and their responsibilities. Managers are more powerful and they could have an effect on the enterprise employees and on the programme as a whole. Assigning the responsibilities is a prerequisite and major step for the success of the programme. It allows for accountability in the process. This step needs professional people to train the managers and the employees, and at the same time define their responsibilities.

This could happen through preparing seminars and lectures to make the programme more understandable. Implementing this step makes sure the enterprise employees become more interested in the programme and increases their knowledge of it. The researcher tried to establish this “Efficient Model” by

applying step-by-step procedures to identify all the tasks required in the process. This ensures that implementation of the privatisation follows clear and professional methods. This step reduces privatisation risks and could give approximately accurate results. The model and all steps in the process are proposed as a necessary stage to speed up and eliminate the barriers in the process.

It needs increasing the management and the coordination work otherwise the programme could continue to be affected by these factors. Applying this model eliminates the responsibilities of the Royal Court, the Council of Ministers, the Privatisation Ministerial Council and the other organization involved in the process. It assigns responsibilities to the Supreme Economic Council as the Decision Making Level, the Privatisation Committee as the Planning and Management Level and the targeted enterprise as the Implementation Level.

This model could be used as a guideline for the Government; at the same time, it could also be used in most of the developing countries.

#### **First: Decision Making Level Tasks (Supreme Economic Council)**

Approving taking the activity or the sector for privatisation

Approving the plan for implementation of privatisation

Approving the plan for implementation of restructuring

Approving the plan for implementation of corporatizing

Approving the plan for dealing with the barriers and resistance groups

Providing some incentives to the investors

Approving establishing of regulators

Approving developing or applying new legislation or laws

Approving of the ownership scheme

Approving the priority between different sectors

Approving the timeframe of implementation the programme

Approving the sale plan

Approving the percentage to be transferred or sold

#### **Second: Planning and Management Level Tasks (Privatisation Committee)**

Managing and monitoring the privatisation process

Setting and developing stages of the programme



Preparing the privatisation plan  
 Preparing the objectives of implementation of privatisation  
 Preparing a privatisation comprehensive privatisation plan  
 Proposing and applying some changes to the privatisation plans  
 Evaluating performance of the sector or the enterprise  
 Evaluation of the sector or the enterprise assets  
 Analyzing the feasibility of privatisation of several enterprises or services  
 Determining the priority between different sectors for implementation  
 Preparing a full plan for feasibility of privatizing the sector or the enterprise  
 Recommending the methods of the privatisation that could be used  
 Preparing the plan for implementation of the privatisation method  
 Developing a plan to dealing with different barriers  
 Develop a plan to dealing with different opposition and resistance groups  
 Determining the restrictions on the ownership  
 Preparing the privatisation marketing plan  
 Preparing a plan for the public  
 Preparing a plan for the media  
 Supervising the consultants/advisors  
 Preparing the sale plan  
 Determining the percentage to be released or sold  
 Preparing timeframe for the implementation  
 Preparing the plan for restructuring  
 Preparing the bidding plan  
 Reviewing the bidder document

**Third: Implementation Level: Public Enterprise Level Tasks**

Managing implementation of the process  
 Studying the existing condition of the enterprise or sector  
 Implementation of training for the employees in the enterprise  
 Preparing the enterprise for privatisation  
 Implementing of the restructuring plan  
 Implementation of the privatisation plan  
 Preparing the enterprise for partially or fully sale  
 Identifying the barriers or the constraints in the programme

Preparing criteria for selection of the advisors  
Selection of the advisors  
Managing the advisors' tasks and works  
Announcing the programme

Figure 8:4 The "Efficient Model" for implementation of the privatisation programme

### **8.11 Conclusion**

The above model shows the benefits of using the functional analysis and step by step method; this would help in the managing and monitoring of the daily activities of the programme. The model could impact positively on the speed of implementation of the process. The advantage of creating the model is that it will help the Government and the employees to visualize the process before starting, and will draw their attention to any hidden matters which could delay the process. It explains the complexity of implementation of the privatisation.

It presents to the management team the requirements, the sequence of the tasks, assigning of the tasks, etc. These factors indicate that the success of privatisation depends on how the model is prepared and the clarity of the components. Designing the model should not be rigid, as that would render it useless; the Government should avoid any rigidity in the model and keep it flexible in order to deal with any unforeseen issues that may arise.

The model should include all the tasks and information relating to implementation of the process. Designing and planning of the model permits for estimation of the time and the resources needed. This makes all the tasks clear and allows the selection of the management team. The team will have to evaluate the implementation of the model from time to time and it should be modified and updated according to the requirements of the enterprise and any problems that may arise in the future. This eliminates delay and increases the participation of different parties.

The researcher tried to deal with all matters relating to implementation of the programme in terms of decision-making, designing and managing and implementation. The process of designing the model should be followed in a practical and logical way which will help in making the model clear during implementation.



There are various benefits in using the model, as follows: First, it classifies implementation of the process into three levels, each one handling a specific task (Decision Making, Planning and Management and Implementation Level); Second, these tasks were assigned to these and organizations (SEC, PC, and PSE); Third, the tasks and responsibilities were specified for each level, and; Finally, the model assigned the tasks and responsibilities for each level and organization.

## **9 Discussion and conclusions**

### **9.1 Introduction**

The previous “Model” should be used to improve implementation of the privatisation strategy, although it is not the only one that should be used or considered in developing and improving the performance of the programme. The privatisation process should consider other factors affecting the process, so implementation of this model could not work unless these factors are considered. The research result emphasised the importance of these factors, and they will constitute barriers to implementation of the programme and most of the time could delay the process.

The results of the research agreed with the findings in the literature, that all these factors created barriers or obstacles to implementation of the process in Saudi Arabia. The researcher found that success of the privatisation requires dealing with each one of these factors independently and building a model for each one, as shown below. Using these models will support the main “Efficient Model”. The researcher found that the privatisation process is interrelated with other matters and affected by them. Therefore investigated these matters in more detail to realize their effect on the process were necessary. Research found that employees of the enterprises or sectors, the implementation of restructuring and regulation all had an effect on the privatisation programme in Saudi Arabia.

The scope of this research covers all matters related to the barriers associated with the privatisation programme in Saudi Arabia, so the researcher studied and established the following models:

- Employee Model (the employees matters covered in section 11.5 Appendix E)
- Restructuring Model (this barrier is studied in depth in Chapter Six).
- Regulation Model (regulation matters are investigated in Chapter Seven).

This chapter presented three models which built on the findings of Chapter 6, 7 and Appendix E). The first model presents briefly method of implementation of privatization on employees. The second model shows implementation of restructuring on enterprise. The last model gives steps of implementation regulation. During constructing of these models, the researcher tried to classify the work in these models to three levels as in the main “Efficient Model” to make them easier during implementation.



## **9.2 Model implementation of privatisation on employees**

Dealing with employees during implementation of privatisation is one of the most sensitive matters to be considered. Employee matters constitute one of the important factors affecting the success of the programme. It is one of the dangerous factors in privatisation because it could create an obstacle and delay the process in different fields. The Government should establish an office for dealing with the redundant employees in the enterprise.

The office should investigate this problem in more detail and find several schemes and solutions that should reduce the impact on the workforce at different levels. This must smooth and speed up implementation of the programme. It should study the process in more depth, and deal with the employees' requirements and the possible effects. This section covers the model that must be used in implementation of privatisation. However, Chapter Six covered most of the employee matters in more detail, including the case study. The model divided implementation of privatisation into three levels as shown in Figure 9.1

### **First: Decision Making Level (Superior Economic Council)**

- Approve preparing a study for restructuring of the workforce
- Approve implementation of the restructuring plan on the workforce
- Approve the schemes or the alternatives that could be offered to the employees
- Issue laws or decisions to protect the employees from privatisation dangers

### **Second: Planning and Management Level (Privatisation Committee)**

- Preparing a plan to deal with opposition groups of the employees
- Preparing the objectives of restructuring the workforce (if needed)
- Providing consulting support to the enterprise
- Studying different schemes that could be presented to the employees
- Reviewing the workforce and management restructuring plan
- Approving the final plan for dealing with the employees

### **Third: Implementation Level (Public enterprise or the sector)**

- Studying the existing workforce and management structure
- Studying different employee issues (pensions, shares, etc)
- Studying the existing labour laws

Investigating the legal scheme context related to employee matters

Developing the management and employee legal structure

Implementation of restructuring on the management structure

Submitting proposals for improving employee conditions and management

Specifying selection criteria of the advisor to study conditions of the employees

Selecting and assigning the workforce restructuring issues to the advisor

Introducing different market methods in managing and training of employees

Preparing the enterprise before sale by strengthening the management structure

Preparing the process of restructuring of the workforce

Implementation of restructuring on the workforce prior to privatisation

Studying the various effects on the employees of privatisation

Studying the effects of the employees on privatisation

Investigating problems of redundancy in the organization

Specifying the extent of redundancy in the public enterprises

Investigating characteristics and effects of redundant workforce

Studying the problems of employee resistance and opposition to privatisation

Studying the types of schemes which could be offered to the employees

Presenting different offers or schemes to the employees such as: Offering shares;  
Finding other employment; Government early retirement scheme, etc.

Figure 9:1 Model implementation of the privatisation on the employees

There are some points that could help in eliminating the employees' problems and reducing opposition, such as: studying other schemes suitable for the Saudi market if the above model doesn't work; offering some incentives to the private sector to employ national employees; attracting the private sector in providing different higher education facilities and training; providing labour market information networks. Most of these points are mentioned in Appendix C.

### **9.3 Model implementation of restructuring**

Loss-making and unprofitable enterprises are one of the barriers to the implementation of privatisation. In most cases, the Government should apply different restructuring plans to make these enterprises more profitable. The plan depends on the type of the information which will be submitted by the PSEs after studying the conditions and problems of the enterprise.



The process could divide the enterprise into small business units, or some of them could be combined. Governments should maximize the benefits from implementation of the restructuring plan. The plan should impact positively on the different units of the enterprise business, otherwise there is no need for the process if it would impact negatively (as mentioned in Chapter Six in the case study of the Saudi Electricity Company) because that could affect the enterprise performance, economy and investment environment of the country.

The researcher covered implementation of the restructuring task in Chapter Six in more detail, while this section briefly covers implementation of the restructuring model. The model classified the restructuring tasks into three levels, as in the main model. This method allows for assigning the responsibilities to these levels, which will help in classifying the works into three levels, which will speed up the process and eliminate delay. These levels are shown in Figure 9.2.

#### **First: Tasks of the Decision-Making Level (Superior Economic Council)**

Approve preparing the restructuring plan (partly or fully)

Approve the budget for implementation of the restructuring

Assign the financial resources for restructuring the budget

Approve the final plan for implementation

#### **Second: Tasks of the Planning and Management Level (PC)**

Preparing the objectives of restructuring

Preparing the criteria for taking the enterprise to restructuring

Selecting the enterprise which needs restructuring

Specifying the timeframe for implementation of the process

Preparing a plan of implementation of the restructuring policy

Approving the types of restructuring that could be used.

Approving the tools for implementation of the restructuring.

Approving the sequence of the process to eliminate contradiction with other tasks

#### **Third: Tasks of the Implementation Level (PSEs)**

Studying the need for restructuring

Preparing the tasks for the restructuring team

Preparing the restructuring types needed in the enterprise

Preparing tasks and the requirements of the restructuring types  
     Preparing some tools for the tasks  
         Preparing elements of the reform programme  
             Constructing the structure of the restructuring team  
                 Selecting the restructuring team  
 Coordinating with the planning level for preparation of the final plan  
     Preparing the types of restructuring conditions  
         Studying the sequence of the process  
 Implementation of the plan in one or different fields

Figure 9:2 Model implementation of the restructuring on the enterprise

#### **9.4 Model implementation of the regulation**

Regulation has a major effect on the legislation side of implementing the privatisation programme. Regulation organized implementation of the legislation matters on the different businesses of the sector or the enterprise. This factor affected different privatisation programmes in developed and developing countries. The effects may take different forms, such as a lack of regulation or an unclear framework, the process being assigned to unqualified employees, the country not having adequate legislation, etc.

The researcher used the same method which had been implemented in the main framework, dividing the plan into three levels, as shown below in Figure 9.3. The third level in this model assigned to the enterprise but in case of the regulator available this task should be assigned to them.

##### **First: Tasks of the Decision-making Level (Superior Economic Council)**

Approving studying of the existing legislation conditions  
     Approving the modifications to the old legislation  
         Approving implementation of new legislation  
             Eliminating the legal restrictions on the sale  
                 Approving the establishment of the regulator  
 Eliminating the restrictions on the monopoly regulation

##### **Second: Tasks of the Planning and Management Level (PC)**



Determining the types of legislation needed, e.g. financial, employees, etc.

Modifying the old legislation to achieve the government objectives

Preparing laws to deal with the legislation barriers

Reviewing the studies prepared by the enterprise or the regulator

Ensuring adequate coordination among all the organizations

**Third: Tasks of the Implementation Level (PSEs or Regulator)**

Studying the existing legislation conditions related to privatizing the enterprise

Establishing new legislation or modified the old (if needed)

Preparing the legislation in different matters (foreign ownership, employee's)

Specifying and presenting the types of barriers in legislation

Protecting the customers, investors and government

Liberalizing the sector or the enterprise

Advertising role of the regulator to the public and investors

Implementation of the legislation

Figure 9:3 Model implementation of regulation on the enterprise or the sector

All the tasks in regulation are assigned to the decision-making, management and the enterprise levels without assigning tasks to the regulator. This refers to the research discussing the barriers hindering transferring of PSEs from government hands to the private sector. However, in implementation of privatisation on the sector there are some tasks that should be assigned to the regulator instead of the enterprise level, such as:

- Preparing the document for sale.
- Reviewing the bidder document.
- Preparing a timeframe for the implementation of privatisation for the sector.
- Preparing a plan for the media and public.
- Preparing the feasibility study for privatisation of different services.
- Preparing a plan for liberalization of the sector.
- Preparing a plan for privatisation.

In conclusion, these models could impact positively on managing the daily activities in these matters. The advantage of creating the models is that it will help the Government and the employees to visualize the process before starting, and

will draw their attention to any hidden matters which could constitute barriers in employees' issues and the implementation of restructuring and regulation.

It presents the requirements of the process, the sequence of tasks, assigning of the tasks, etc. to the management team. All these factors indicate that the success of privatisation depends on how these models are prepared and on the clarity of each one. As before, the Government should maintain flexibility in the model and ensure it comprehensive, to allow for accurate estimation of the time and resources needed, clarity of the required tasks and optimum selection of the management team. Lastly, these models should also be modified and updated periodically to avoid potential delay and ensure efficient participation of all the parties in the process.

## **9.5 Conclusion**

The research aimed to develop implementation and management of the privatisation strategy in Saudi Arabia and identify and analyze some of the barriers encountered in the implementation of the programme on different public enterprises. It used the views of public and private sector managers, in particular regarding the main issues of the programme, and the implication of their views on effective implementation of privatisation.

The original contribution of this study is the detailed investigation of the opinions and attitudes of the managers towards privatisation in the context of developing the implementation of the process. The researcher used three different methods of investigation, each one suited to the type of information and analysis required. For examination of the privatisation strategy, the main resources were investigation of the official documents and published official reports and papers. Questionnaire surveys were used to assess the opinions and understanding of privatisation by public and private managers. The use of detailed case studies provided a more in-depth account of some of the important issues related to some privatisation matters, such as employee issues, restructuring and regulation.

The researcher has adopted a triangulation method with three main sources of information (literature review, surveys and case studies) at all three levels (decision-making level, planning and management level, and implementation level). The preliminary literature review set the context of the research and



provided more precisely the basis for formulating the research problem and hypotheses and for designing the surveys.

All the relevant documents and published papers and reports were examined where appropriate. Surveys of the managers were a major part of the research. These surveys helped to solicit their views about the different barriers and issues relating to privatisation. Overall, all the three approaches taken to data collection provide a rounded view of the implementation of the privatisation programme in Saudi Arabia and all the barriers to the programme.

The privatisation strategy assigned a variety of tasks to different authorities and organizations in the programme. Their responsibilities range between many authorities for different tasks between preparing studies, obtaining approval, etc. This prolongs the process, and could have an effect on the investment environment.

Investors will not be attracted to a lengthy process, leading them to search for easier procedures implemented by other countries. The Government could shorten the steps and reduce the number of organizations involved. There is a commitment from the Government to implement the programme but the process is moving very slowly. They are still in the early stages of implementing the programme and that requires them to follow understandable and clear procedures when assigning all the tasks to more experienced people and organizations.

They could develop a plan to implement the process and avoid any failure, which would be helpful in making the implementation easier. This process needs cooperation between different departments and organizations in the public and private sectors. The Government has to review the existing strategy, eliminate the delaying factors and assign all the tasks to professional organizations. This allows for managing the process, assigning and coordinating all the tasks.

Training and developing the employees of the enterprises is one of the effective factors which would help towards the success of the process. In designing an ideal "Efficient Model" to guide them in implementation of the process, they can use it for other privatisation processes, making any necessary modifications.

Finally, the experience of Saudi Arabia in implementing privatisation so far has been partly successful. The speed of implementation has not matched

expectations. There were problems encountered among employees, and in restructuring and regulation matters. Doubts have been raised regarding the genuine commitment to privatisation by the policy-makers and managers of public enterprises.

The slowness in implementing privatisation is attributed to both lack of commitment and inadequacy of management. Accountability for low levels of success is not clear. Since the attitudes of managers to privatisation are so important, a good marketing plan to create or enhance favourable attitudes is essential. Using these models would help them in producing valuable studies in the implementation of privatisation, and that could attract more investors to the programme. Models could be used by different enterprises or sectors as a set of guidelines to the process.

#### **9.6 Contribution to the Knowledge**

This research is designed to fill the gap in knowledge about planning and managing privatization and monitoring implementation of the process. The study develops several models which make managing and implementing the process clear for all the countries willing to implement privatisation. These models are making the process easier and clearer for all the organizations involved in the process.

The original contribution of the study is the detailed investigation of the opinions and attitudes of the managers towards privatisation in the context of developing the implementation of the process. It identifies the barriers in implementation of the privatisation process and helps the government in monitoring and managing these barriers. The study deals with each barrier independently.

The main model deals with the implementation of the privatisation strategy which allows the management team to manage all the activities in the process. The second model resolves the problems associated with implementation of restructuring on the public enterprise. The third model helps the management team on implementation of privatization on employees. The final model deals with implementation of the legislation and regulation matters before proceeding with the process.



### **9.7 Recommendation for future study**

Privatisation of public enterprises in Saudi Arabia may no longer be a strange idea; however, the process is still in its early stages, and these barriers could constitute major obstacles to the programme when it is expanded. Future research should concentrate in more depth on the three barriers in the programme to avoid their effects. These effects could be developed and expanded, and could create a major impact on different economic activities in the country.

The Government needs to liberalize several sectors, such as water, post, aviation, electricity, etc.; this requires preparation of studies on how to liberalize and privatize these sectors. The Saudi Government should provide scholarships for this type of research, as this could help them in studying and investigating methods of privatizing these sectors. However, support of these organizations is very important to the success of this type of research.

This study faced difficulty with the public employees in terms of their cooperation, collection of the surveys and obtaining the information. These factors created barriers at some points during the investigation. Cooperation among these organizations and authorities would help them achieve success in this type of research. Studying these factors would help the Government in developing the programme and avoiding their effects on the process.

## 10. References

Note: It should be pointed out the list of references in accord in to Alphabetical order is located in Section 11.11 Appendix K

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## **11. Appendix**

### **11.1. Appendix A: List of Publications**

1. Buridi, A., Gupta, N., Wamuziri, S. (2007) Factors that Affect Implementation Privatisation in Developing Counties, the 3rd UNITEN International Business Management Conference (UIBMC 2007) on 16th – 18th December 2007, Melaka, Malaysia.
2. Buridi, A., Gupta, N., Wamuziri, S., (2007) Impact of Planning on Implementation of Privatisation, Business & Economics Society International (B&ESI) Conference, ISSN: 1756-9850, July 16- 20, 2007, Antibes, France.
3. Buridi, A., Gupta, N., Wamuziri, S., (2007) Privatisation in Saudi Arabia: Developing Structure of Management Implementation of the Programme, European Applied Business Research Conference, ISSN 1539-8757, 2007, June 4-7 2007, Venice (Padova), Italy.
4. Buridi, A., Gupta, N., Wamuziri, S. (2007) Assessment of Structure of Allocation of the Responsibilities in the Privatisation Programme of Saudi Arabia, Planning Research Conference, HeriotWatt University, Edinburgh, April 10-12 2007.
5. Paper submitted to World Development Journal:  
Buridi, A., Gupta, N. and Wamuziri, S. (2007) Barriers to Implementation of privatisation in Developing Countries, World Development Journal, ISSN 0305-750X : paper sent to the editorial on 07/11/2007, the response the paper received.

## 11.2 Appendix B: List of the questions

<b>First Part: Chapter Four: Performance of the Public Sector Questions (PPSQ)</b>			
Question Number	Main Questions	Coding Number	Options
Q1	The Objective of establishing the public enterprises	PPSQ1	Restructuring of the public sector.
		PPSQ2	Central planning and control over of the national economy
		PPSQ3	Diversity and increasing the government income
		PPSQ4	Guaranteed provision of services with good quality and low prices for the citizens.
Q2	Was the Chosen Objective Attained?	PPSQ5	Same
Q3	Problems of the Public Enterprises	PPSQ6	Low productivity and performance
		PPSQ7	Government interference.
		PPSQ8	Low decision-making process.
		PPSQ9	Bureaucratic procedures in the management.
		PPSQ10	Low financial resources.
Q4	Agreement of the Managers on Keeping the Enterprises in Public Hands	PPSQ11	Same
Q5	Liberalizing the enterprises could resolve the enterprise problems	PPSQ12	Same
<b>Second Part: Chapter Five - Privatisation Programme Assessment Questions (PPAQ)</b>			
Q 6	The proper privatisation definition	PPAQ1	Change the management system
		PPAQ2	Reduce size of the public sector
		PPAQ3	Sell the public enterprise to Citizens.
		PPAQ4	Liberalize the economy.
Q7	Agreement with implementation of the privatisation programme	PPAQ5	Same
Q8	Is the Privatisation Strategy encouraging implementation of the process ?	PPAQ6	Same
Q9	Goals that could be achieved by implementing	PPAQ7	Change direction of national investment and increase the Government income
		PPAQ8	Widen the ownership in different projects
		PPAQ9	Liberalize the economy & increase efficiency
		PPAQ10	Reduce the size of public enterprise & develop



	privatisation		other sectors
		PPAQ11	Increase the competition & encourage private sector.
Q10	Reasons leading the government to hesitate in implementation Of the process	PPAQ12	Cause unemployment
		PPAQ13	Change public enterprise policy & expose it to competition
		PPAQ14	Concern about private sector goals.
		PPAQ15	Effect on the Government plans.
		PPAQ16	Social and economic effects on citizens.
Q11	Could involving multiple organizations in the programme create a delay?	PPAQ17	Same
Q12	Agreement of the managers on reducing number of the organizations in the programme	PPAQ18	Same
Q13	Options for developing the privatisation committee	PPAQ19	Keep the Committee: no change needed.
		PPAQ20	Keep it but support them with some experts
		PPAQ21	Enlarge the Committee and add the missing units
		PPAQ22	Establish a new organization bigger than the Committee.
<b>Third Part: Chapter Six: Part One: Employees Matters and the Privatisation Programme (EMPP).</b>			
<b>Part one: Privatisation and employees</b>			
Q14	Is the employees resist the process	EMPP1	Same
Q15	Agreement on establishing of a law to protect the labour forces	EMPP2	Same
Q16	Could the size of overstaffing in the enterprises create a barrier to privatisation	EMPP3	Same
Q17	Providing incentives to the redundant employees	EMPP4	Same
Q18	Providing loans for affected	EMPP5	Same

	employees		
Q19	Agreement on establishing an office to handle the affairs of redundant employees.	EMPP6	Same
Q20	Agreement of the managers on implementation of restructuring of the workforce	EMPP7	
<b>Second Part: Saudization Policy</b>			
Q21	Did Saudization constitute a barrier to implementing privatisation?	EMPP8	Same
Q22	Did the private sector reject the Saudization policy?	EMPP9	Same
Q23	Is the new graduates ready to work in the private sector	EMPP10	Same
Q24	Are the new graduates unwilling to work in the private sector?	EMPP11	Same
<b>Fourth Part: Chapter Seven: Restructuring Policy of the Public Enterprises (RPPE)</b>			
Q25	Restructuring policy could create barrier in the process	RPPE1	Same
Q26	Agreement on the restructuring policy open	RPPE2	Same
Q27	Agreement on developing the restructuring policy	RPPE3	Same
Q28	Options for Assigning planning and designing of the	RPPE4	Public enterprise employee
		RPPE5	Privatisation Committee.
		RPPE6	Independent team from the enterprise and working under the sector
		RPPE7	Specialized office.



	restructuring		
Q26	Objectives that could be achieved by implementation of the restructuring policy	RPPE8	Increase the performance and the productivity
		RPPE9	Taking them to the market and increasing the competition
		RPPE10	Reduce the financial deficit and increasing the income
		RPPE11	Eliminate the unproductive employees
Q27	Restructuring types that could be implemented	RPPE12	Management and administration restructuring.
		RPPE13	Financial and economical restructuring.
		RPPE14	Technical and operational restructuring
		RPPE15	Employee restructuring
		RPPE16	Comprehensive restructuring.
Q28	Agreement on implementation of restructuring according to phasing and timing	RPPE17	Same
<b>Fifth Part: Chapter Eight: Regulation of the Privatisation Programme Questions (RPPQ)</b>			
Q29	Agreement regulators could constitute a barrier in implementation of the process.	RPPQ1	Same
Q30	Factors causing a delay in implementation of the regulators	RPPQ2	Regulator did not proceed in liberalization
		RPPQ3	Lack of qualified employees
		RPPQ4	Weakness in regulators' institutions
		RPPQ5	Lack of cooperation of other organizations
		RPPQ6	Interference from decision-makers
Q31	Agreement on implementing evaluation for the performance of the existing regulators	RPPQ7	Same
Q32	Effects of increasing number of regulators on privatisation process	RPPQ8	Increase speed of implementation
		RPPQ9	Create barriers on implementation liberalization
		RPPQ10	Increase liberalization and competition
		RPPQ11	Causing slow implementation
		RPPQ12	Increasing management layers
Q33	Ways to improve the regulators	PPQ13	Combine variety of sectors under one regulator.
		PPQ14	Hiring consulting offices
		PPQ15	Applying change management technique.
		PPQ16	Introducing some techniques e.g. pricing,
		PPQ16	Providing some support in other fields.



### 11. 3. Appendix C: Managers' views about the public sector

This part covers five questions relating to the performance and efficiency of the public sector and its enterprises, covering whether the sector achieved its objectives, the problems in the sector, agreement on it remaining public and the liberalization of economic activities in the country. These questions allowed the researcher to gauge their opinions about the public sector and its enterprises.

Agreement of the managers on implementation of change is very important, especially in privatisation, which will change the ownership and management team, with some of the managers losing their benefits, etc. The managers' agreement on releasing these economic activities and changing the ownership from public to private means accepting the change and smooth implementation of the programme. The researcher used PPSQ which stands for Performance of the Public Sector Questions.

#### ☒ Objective of establishing the public enterprises

Managers were given four options as shown below:

PPSQ1. Restructuring of the public sector.

PPSQ2. Central planning and control over of the national economy.

PPSQ3. Diversity and increasing the government income.

PPSQ4. Guaranteed provision of services with good quality and low prices.

Their responses are shown in Figure 11.3.1. The main purpose of this question was to evaluate and distinguish managers' knowledge about the objectives of establishing the public enterprises and how they rank them.

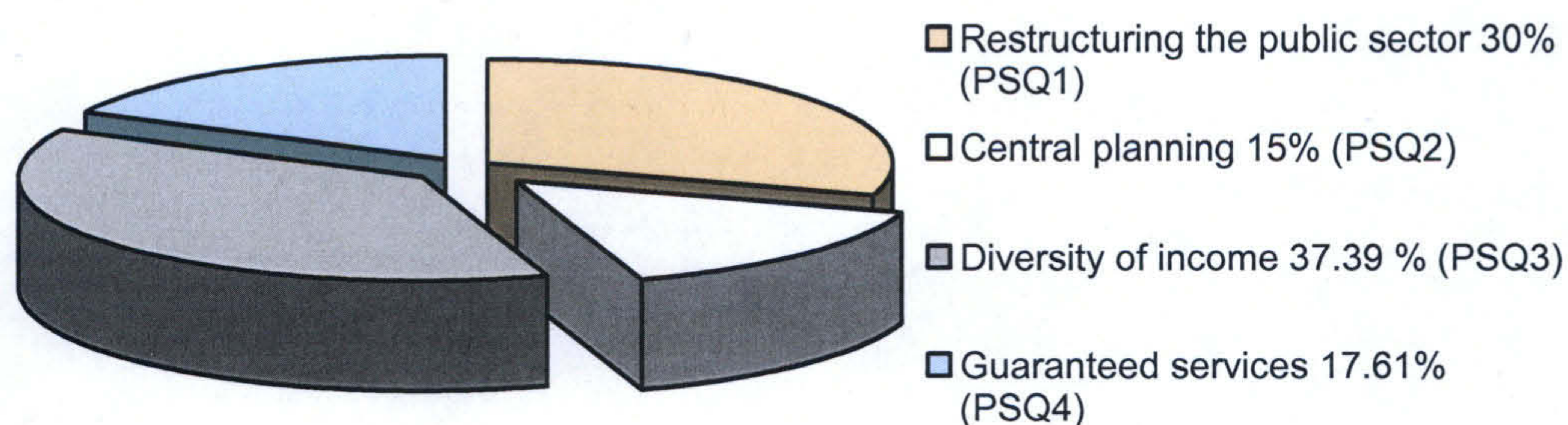


Figure 11.3.1: Managers' responses to objectives of establishing the Enterprises

Diversity and increasing the government income were selected by 37.39% as the most important objectives. They realized the Government is now more open and



they are making this objective one of their top priorities. The main goal of the Government is liberalizing the economy through transferring of some of their services to the private sector. The second objective selected was restructuring the public sector (30%). Their selection indicated that they are accepting the idea of restructuring the public sector and this could improve and develop different services. Thirdly, they selected guaranteed services (17.61%).

Central planning and control over of the national economy received the lowest score: in the researcher's opinion this was because most of them know that the Government has adopted a different planning process since 1956. The Government realized there was a problem in the planning process and they consulted these organizations to help them find solutions (for example, the establishment of the Ministry of Planning; the separation of the Ministry of Finance from the National Economy; the combination of the economy with planning under one organization called Ministry of Economy and Planning.

Some of the managers added other objectives, e.g. supporting some of the government agencies; handling this task because the private sector is weak and unable to handle it; and establishing Social Affairs to provide services to people on low incomes. Managers found there were other important objectives to be considered rather than central planning and controlling the economic activities, e.g. diversity of the economy and restructuring of the public sector. Hence the managers realize now that the Government should implement other objectives by investigating the market needs.

The answers were rearranged and ranked according to their responses as follows:

1. Diversity and increasing Government income.
2. Restructuring the public sector.
3. Guaranteed service provision with good quality and low prices to the citizens.
4. Central planning and control over the national economy.

#### **☒ Was the Chosen Objective Attained?**

This question allowed the managers to evaluate their selection in the first question, so PPSQ5 would take their opinions concerning whether the selected objective had been achieved. Five options were given, as shown in Figure 11.3.2.

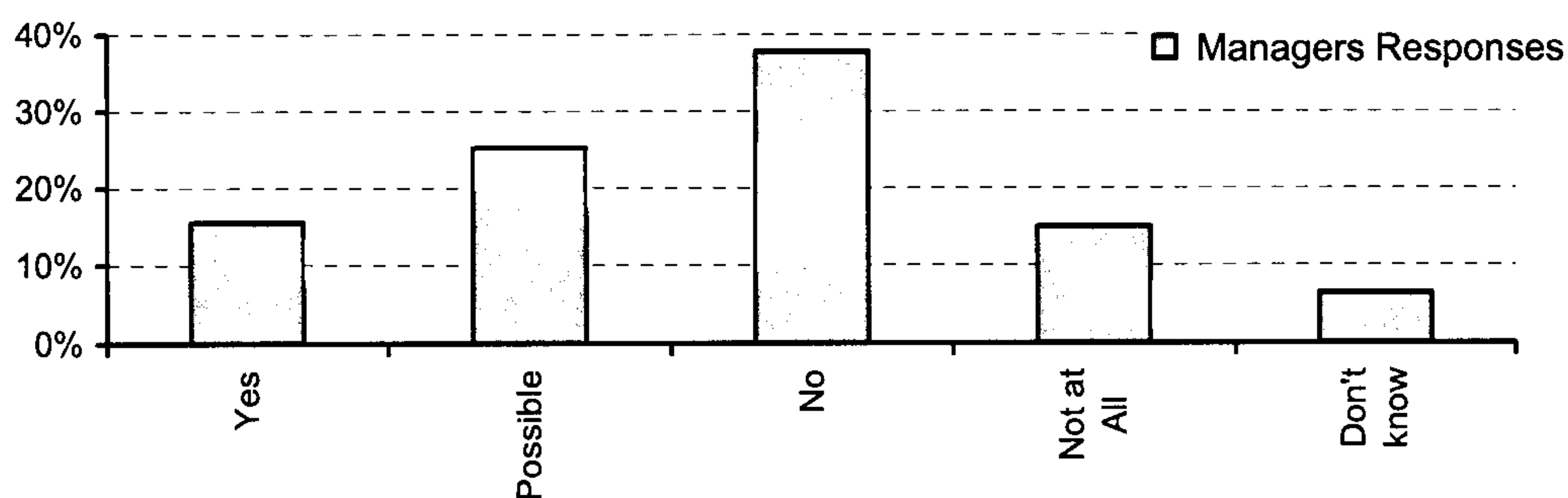


Figure 11.3.2: Managers' responses to whether the chosen objective had been attained.

The result was surprising: almost 53.2% of them (38.2 % “no” and 15% “not at all”) agreed that the public sector had not attained the selected objectives; we can estimate that most of the managers who chose this option were from the private sector. However, what about the other choices — the 25.2% who were not sure and the 6% that did not know?

All these results show that most of the managers were not sure if these objectives had been achieved, while only 15.60 % of the total of the managers selected yes. These results indicated that most of them are dissatisfied with the performance of the services provided by different public enterprises. This indicated the Government should increase liberalization of different public economic activities by implementing different strategies and policies to achieve these objectives.

#### ☒ **Problems of the Public Enterprises**

The Saudi government targeted most of the public enterprises for privatisation, so this provided a chance for the researcher to discover the managers' opinions on the problems of the PEs. Five options were given, as shown below:

PPSQ6. Low productivity and performance.

PPSQ7. Government interference.

PPSQ8. Slow decision-making process.

PPSQ9. Bureaucratic procedures in the management.

PPSQ10. Low financial resources.

Their responses are shown in Figure 11.3.3.

Bureaucratic procedures at the management level had the highest response with 30.9%, then low productivity and performance (25.50%); 17.30% of them agreed the government interference in the enterprise works as the third problem; 14.10%



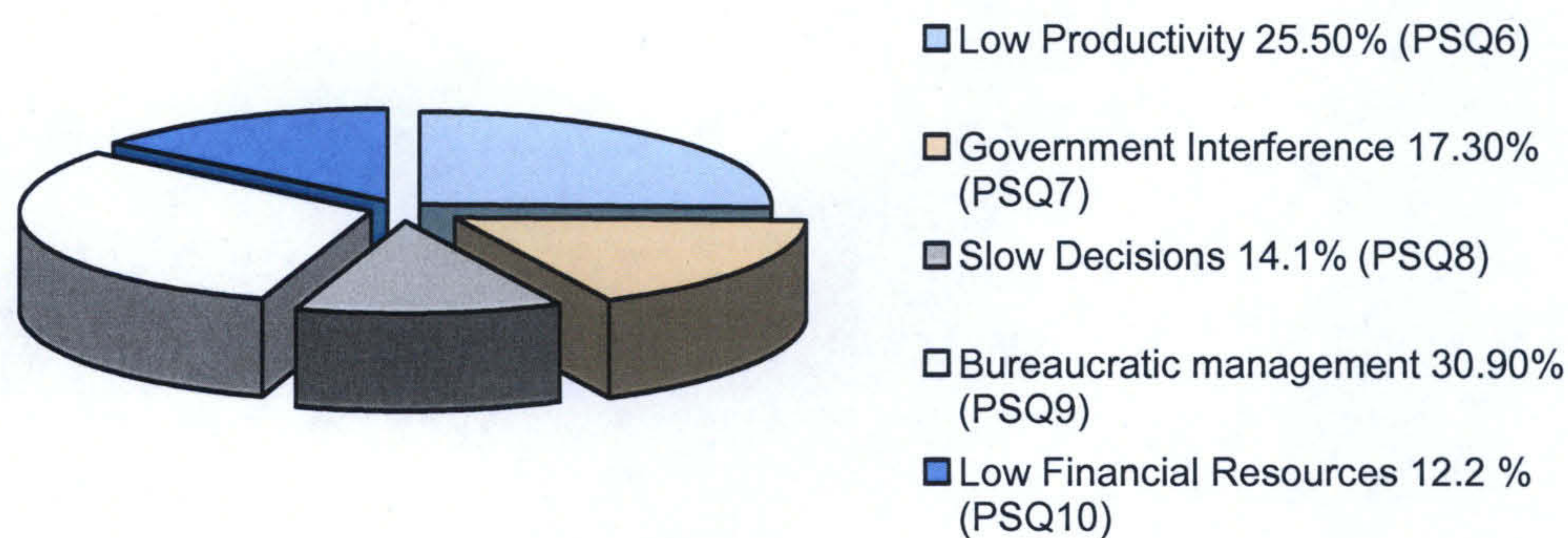


Figure 11.3.3: Managers opinions about problems of the public enterprises.

of the total of the managers selected slow decision-making. Lastly, 12.2% of them selected low financial resources; the researcher interpreted their selection of this factor as the last on due to the fact that these enterprises did not have a problem with financing their projects because there was continuous government support, including annual budget support.

The answers were rearranged and ranked according to their responses as follows:

1. Bureaucratic procedures in the management.
2. Low productivity and performance.
3. Government interference.
4. Slow decision-making process.
5. Low financial resources.

#### ☒ Agreement of the Managers on Keeping the Enterprises in Public Hands

The managers were asked if they accepted keeping these enterprises in public hands. By asking this question the researcher aimed to establish if they agreed to liberalize part of these services to the private sector or to keep them under Government control. Question PPSQ11 required the managers to respond on a five-degree scale, as shown in Figure 11.3.4.

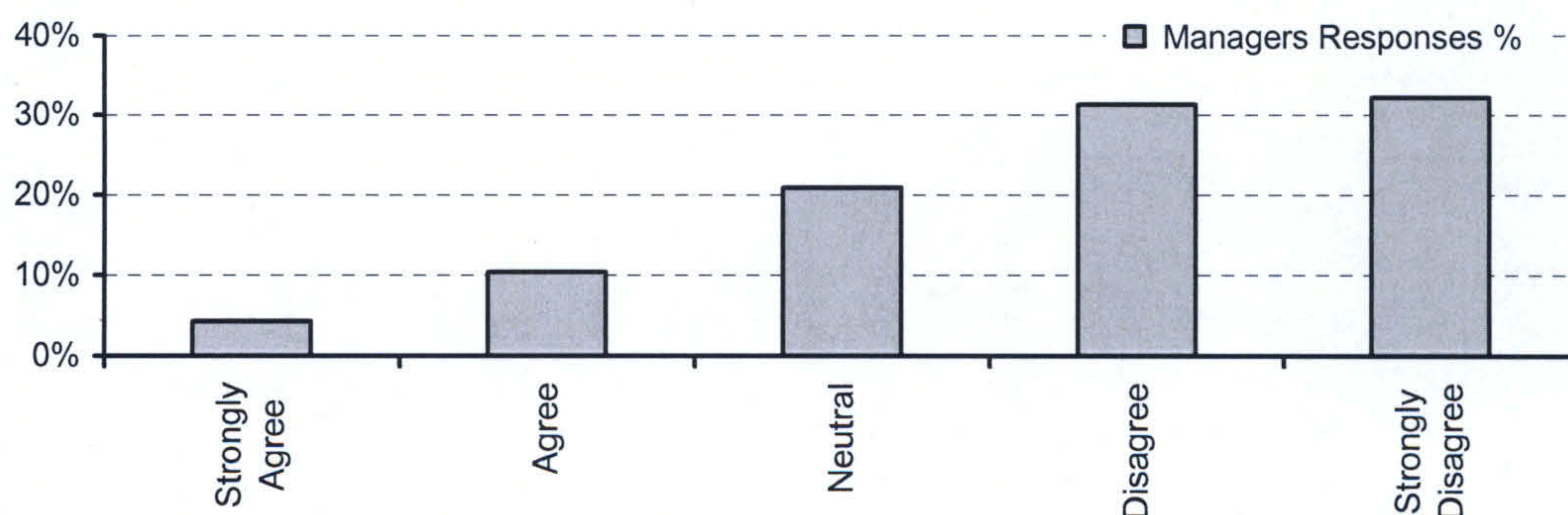


Figure 11.3.4: Managers' views regarding keeping the enterprises in public hands



It is clear from the results that 4.78% of the managers strongly agreed and 10.4% of them agreed, with a total of 14.70% of the total number accepting the idea of keeping the public services in the Government hands, while most of the managers — public or private — refuted the idea of keeping these services in public hands. This figure emphasises that most of the managers, public or private, agreed that the private sector is qualified and more efficient in handling public enterprises.

#### ☒ **Liberalizing the enterprises could resolve the enterprises problems**

After being asked about the problems of the public enterprises, managers were asked if these problems could be resolved if these enterprises were transferred to the private sector. Managers were given five options in PPSQ12, as shown in Figure 11.3.5.

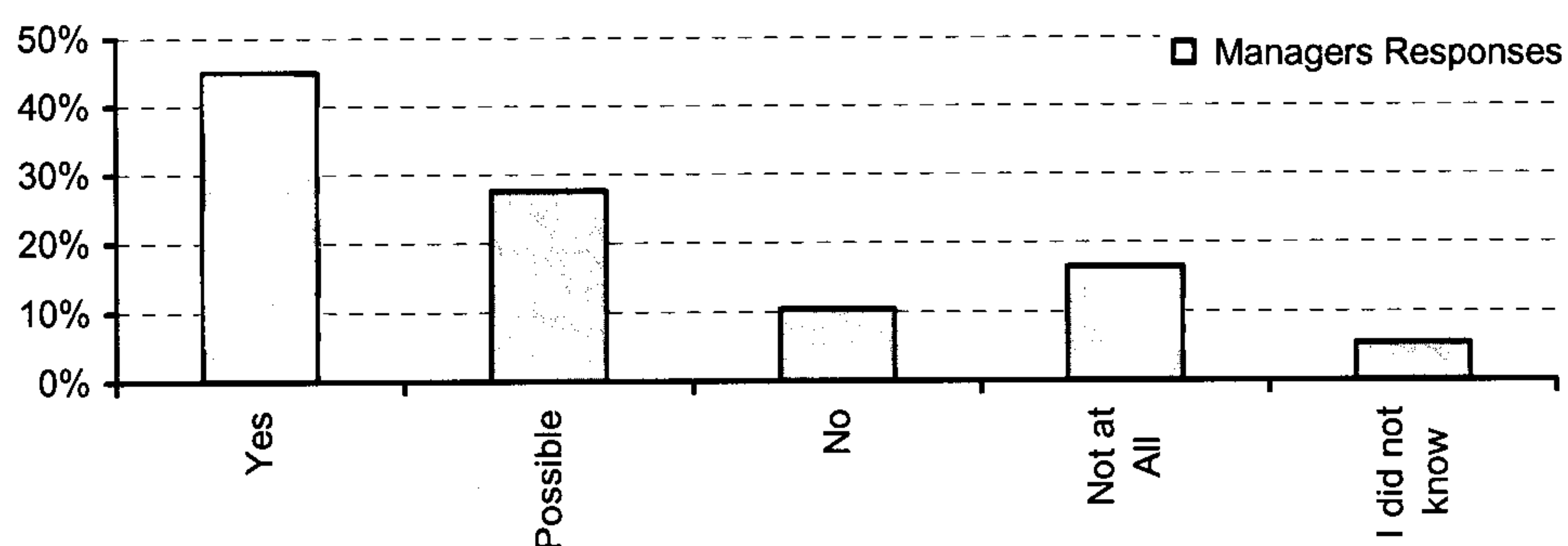


Figure 11.3.5: Managers' responses regarding whether transferring these enterprises could resolve their problems?

The majority of the managers agreed that these problems would be resolved if these enterprises were liberalized or transferred to private hands, while 26.84% of the total did not agree (10.34% “no” and 16.50% “not at all”); 5.44% did not know. The researcher was surprised because the sample presented both public and private managers, and through these results the researcher noticed that most of them, including the public managers, were not refusing to take these services into the private sector. This result will give privatisation a positive spin, which will be helpful in the success and smoothing implementation of the programme.

#### **Researcher's comments and recommendations on the managers' responses**

A survey of the managers was conducted to assess their opinions about the public enterprise performance and efficiency. The first part covered the public sector objectives; in general it found that a large number of them selected diversity and



increasing the government income as among the top priorities. Their responses show that how they looked at the objectives of establishing the public enterprises and how they rank them are quite different from what the researcher had expected.

The researcher thought the managers would pick the central planning and control of the economic activities in the country as the highest item, but this indicates that they have started to think about liberalization of the economic activities in the country. The researcher adopted this objective because the Government has problems with planning, and different international institutions, such as the World Bank, IMF, etc. participated in planning the economy. They have been investigating the economic situation of the country and have advised the Government to adopt or establish organizations to handle the planning process.

The second selection indicated how the managers are starting to think about restructuring the public sector as being the most important objective, along with a guarantee of supplying services with good quality and low prices. They realized the benefits of the diversity of the country's resources and how this will help them in liberalizing the economy. This is one of the goals for many countries: they diversify their economy through the participation of the private sector in order to benefit the country's economy.

Also, this gives an idea about the managers' opinions regarding public sector requirements in the future. The fact that some of them selected the third objective (guaranteed service provision with good quality at low prices) as important shows how they are starting to think about other factors outside business or planning. This result was surprising to the researcher because it was not related to commercial, planning or reform objectives.

These results mean, the participants — all of them Saudis — are aware of problems in the public services and that some people and cities lack the necessary services. This could be one of the advantages of developing the investment environment; its expansion will make these services more available. This means there will be good investment in the country, especially in the infrastructure projects, and this will improve the construction and services market in the country.

The second part investigated whether these objectives had been attained; they responded by saying that these public enterprises had failed to achieve their objectives. Almost 15.60% of them agreed that these enterprises had achieved their objectives; 25.20% were undecided between yes and no, concerning the achievement of objectives and the remaining 12.1% were not sure. This suggests that most of the enterprises were not utilizing the resources in an efficient way and these were not handled by professional employees. These enterprises could be managed and operated more professionally by the private sector. These results indicate that they are in favour of transferring these enterprises to the investors.

In the third part, the evaluation of enterprise problems, it was found that the difference between these percentages was very close, indicating that the managers realized these enterprises suffered from different problems but they did not recognize which factors had a greater effect. The results indicated that most of them thought there were many problems in the enterprises in Saudi Arabia. As mentioned previously, the selected sample is a mix from the private and public sectors, but the result of this question is surprising because the percentages given to each item were high. This could have a positive effect on implementation of the privatisation programme.

This indicated that not only the private sector managers but also the public employees were dissatisfied with these services. The researcher interpreted this result as both sets of managers being in favour of implementing privatisation and transferring these enterprises. This result could be interpreted by what the managers added during the interview, when some of them mentioned other disadvantages related to the productivity and performance of the public enterprises (such as there being no future plans and no employment incentives). All these disadvantages have a direct effect on the productivity and on the performance of the enterprises' employees.

Most of them strongly disagreed or disagreed with keeping these enterprises in public hands. The results of part four indicated that most of them believed these services would perform better if the Government were to transfer them. During the interviews, some of the private managers mentioned that some of the enterprises (e.g. water, sewage, railways) need Government support because some of them, up to now, have not been profitable, while transferring others (e.g. in the



oil and gas sector) to the investment because these sectors have already received enough support; this would allow them to support other services.

Managers added that if the Government wants to keep them in its hands for strategic purposes they could keep the highest percentage and release the rest. This could be interpreted that this group may create resistance or delays during implementation. Keeping these enterprises in public hands would keep them available for a certain group of people, e.g. decision-makers or the rich.

In the last part most of them agreed that the public sector disadvantages will be resolved if the private sector were to handle the work of these enterprises. In addition, it indicates that there is no fear from the public managers if the Government implements privatisation. Participation of the investors is a very important factor in success of the process and their responses to this question were a good sign for participation in the programme.

Finally, the researcher interpreted the results of this part as follows: They believed there were failures in the public enterprises and their services and most of them accepted the idea of taking these services into private hands; Private managers want the government to give them a chance to handle different economic activities; The managers' responses mean that the Government has failed in achieving their objectives of establishing the enterprises; This answer suggests that both public and private managers are in favour of privatisation; The researcher interpreted that the private managers are willing to participate with the Government if there were a commitment to transfer some of the enterprises to investors, working on a commercial basis and in a more open and competitive environment.

These recommendations could be helpful in transferring different enterprises to the private sector or using different privatisation methods, as follows:

- Preparing full studies on how the diversity of different economic activities and enterprises could take place.
- Supporting the non-oil sectors by providing full and clear information about each enterprise which will help them in rectifying each enterprise problem e.g. low productivity and efficiency, lack of information systems, etc.

- The Government should take serious action to implement restructuring of different public enterprises.
- Implementing liberalization of different economic activities in the country by using clear processes and associating the programme with transparency will help the Government in proceeding with privatisation.
- Presenting enough information to the investors related to the investment environment on the enterprises (type of the investment, problems, profits, losses, facilities, employment, etc.) could help in speeding privatisation of the public enterprises, and speed up the process for investors taking the decisions, shortening the process of implementation.

These recommendations will not be attained unless the Government takes forward steps such as: Preparing (for each enterprise) studies of their resources (financial, human, technical, management) and other matters; Improving and developing the skills of the enterprises' employees in different business areas, e.g. marketing the investment. This can be achieved through training and providing support from experienced staff; they could attract more qualified and more experienced people from the private sector to improve the business environment; All the public enterprises targeted for privatisation should establish a business department that will help in marketing their investment and increasing the business environment. These departments will help in developing the business and investment procedures.

In the planning process the Government should place emphasis on increasing liberalization of the economy to attract the interest of the investors and increase trust between them and the Government. This would improve the investment environment and create an appropriate environment in the country, thus allowing the Government to develop and implement different procedures that will speed up the participation of the investors in the national economy. This will increase the private share to GDP and broaden the national ownership of productive assets.

Increasing liberalization of the economy will help the Government in developing different services and sectors. It should keep its commitment to liberalize the economy and implement the process by reviewing, developing and preparing different laws that encourage liberalization of the public enterprises and most of the economic activities in the country. Different developing countries have



succeeded in liberalizing their economy after investigating the factors that made a strong impact on the process, such as developing legislation, restructuring the enterprises, etc. This could allow them to ascertain if any one of these factors constitutes a barrier or constraint on implementation of the process.

The Government should improve the public enterprises before taking them to the private sector by introducing some corrective actions, such as improving the management, developing the technology, training the employees, introducing some of the business activities in enterprises, etc. This will speed up the implementation of privatisation on the enterprise and avoid any failure before going ahead with the process.

Opening other sectors for investment (such as the oil, gas and minerals sector) will allow them to support sectors such as health, education, etc., thus avoiding the dangers of privatisation on the employees and low-income groups: the programme should be studied in depth, and relevant laws should be issued to protect the Government, employees and customers.

The basic services should be guaranteed to the poor people and the prices controlled; if there is a rise to a certain limit that will suit this group. All these recommendations will help the government in diversifying the economy from the oil sector to more free market. In addition, all these procedures will be helpful in smoothing and reducing resistance and opposition to the privatisation, especially if there are clear regulations and legislation.



#### 11.4. Appendix D: Assessment of the managers' opinions on the privatisation strategy

This section investigated the managers' opinions related to implementation of the privatisation strategy. Questions in this chapter covered different aspects of the process e.g. the proper definition of privatisation, agreement with implementation of the programme, etc. The total number of questions is eight — in analyzing the questionnaires, the researcher used PPAQ (Privatisation Programme Assessment Questions).

##### ☒ The proper privatisation definition

Obtaining a clear perspective about the definition is very important especially from the respondents' in order to get an idea about their knowledge of privatisation and their understanding of this term. The questionnaire gave four choices as shown in the Figure 11.4.1. This question allows for the managers to add more definition.

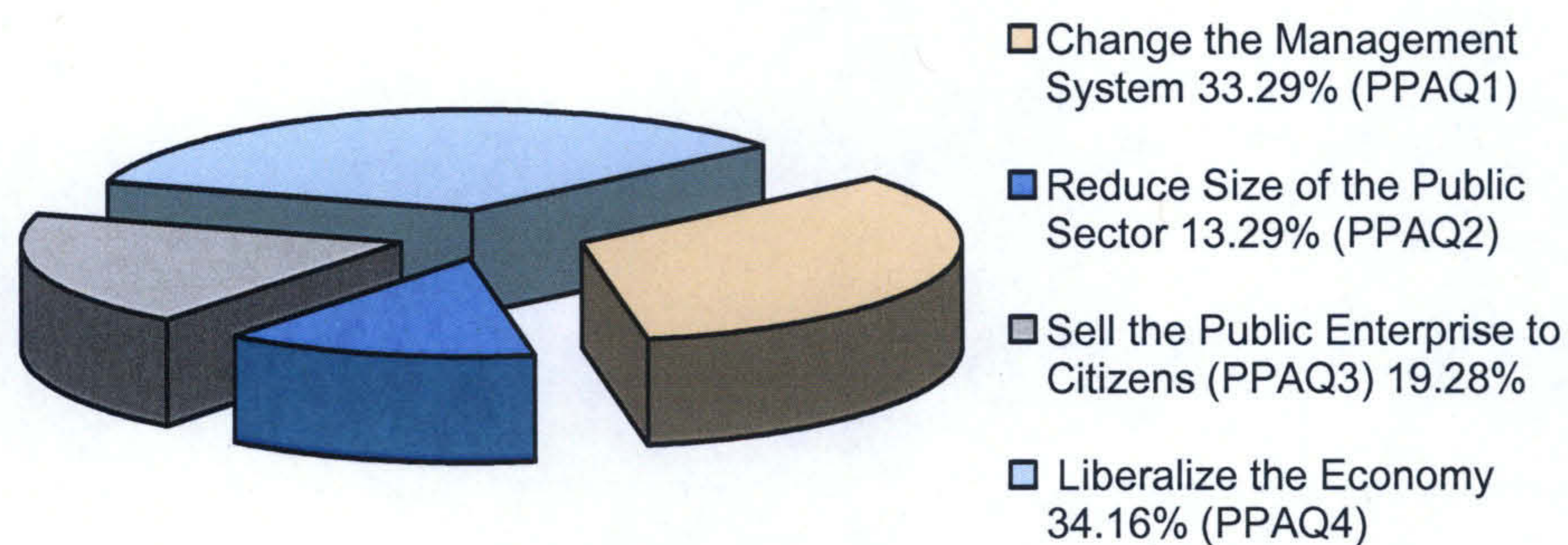


Figure 11.4.1 Managers' opinions about the definition of privatisation.

34.16 % of them agreed that privatisation is mainly liberalizing the economy into a free market. This high percentage indicated that most of the public and private managers agreed on liberalizing the public economic activities. 33.29% agreed on changing the management and system of the public economic activities as the second ranked definition for privatisation. The researcher thought most of the managers who selected this option were private sector because the public sector managers are not interested in this option (as change in management could result in loss of their previous benefits).

Then the sale of these shares to citizens or to investors had a response of 19.28%. Finally, they selected reducing the size of the public economic activities as the last definition of privatisation. Some of them added other definitions, such as



increasing the private sector ownership, good quality and performance and improving the citizens' living standards.

The options were rearranged from the highest to the lowest as follows:

1. Liberalize the economy
2. Change the management system
3. Sell the public enterprise to citizens
4. Reduce size of the public sector

**☒ Managers' agreement with implementation of the programme**

Managers are the decision-makers in different enterprises and their opposition to implementing the programme could delay the process. They have the authority to implement different decisions on different economic activities in several enterprises. It is an important factor in implementation of privatisation that the managers agree with the programme. This includes the private managers because they are part of the process and their cooperation and participation in privatisation programme is very important. In order to investigate their opinions on the process they were asked about their agreement with the strategy. Managers in question PPAQ5 were given a five-degree scale of questions, as shown in Figure 11.4.2

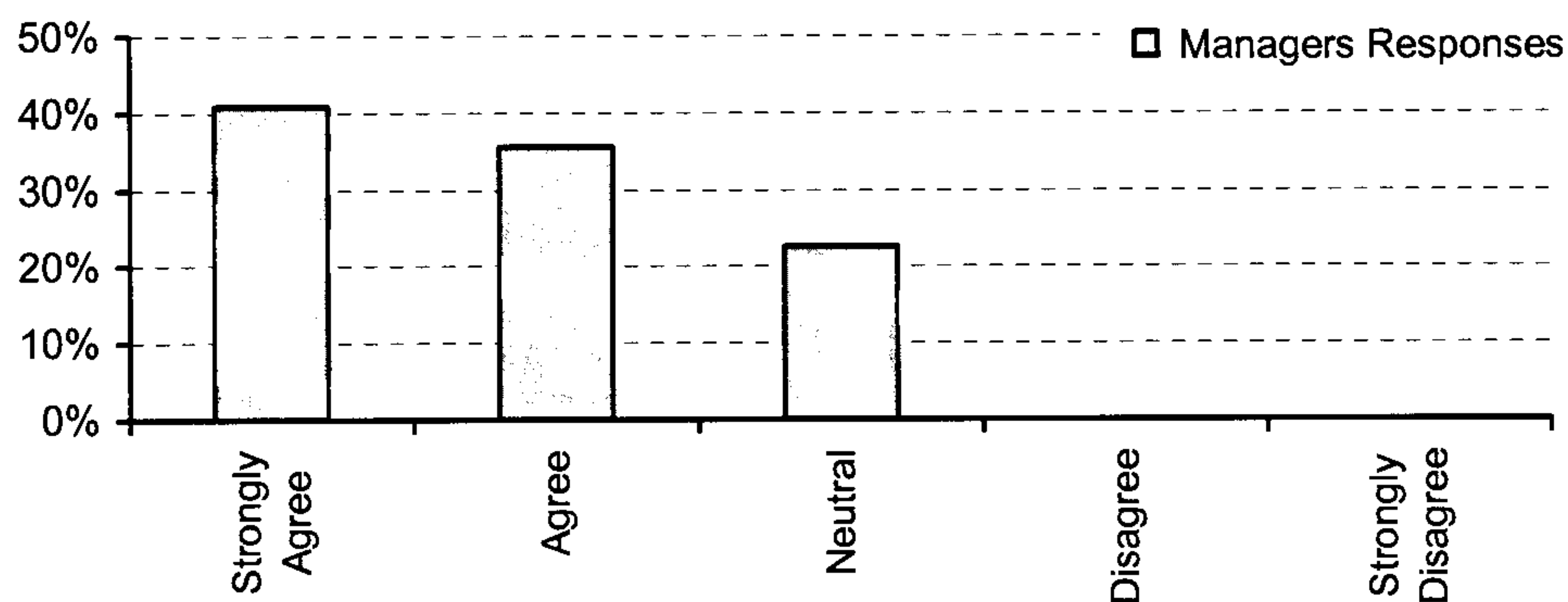


Figure: 11.4.2 Managers' agreement with implementation of privatisation.

40.87% strongly agreed and 35.65% of them agreed with the decision. This constitutes a 76.52% agreement with the programme, while 23.48% were neutral or undecided with the programme. None of them disagreed or strongly disagreed with the privatisation decision. These results show they were in agreement and accepted implementation of the strategy. Some of them added other issues: for example, the Government should have issued this decision much earlier, as this would have helped the entities to increase their efficiency and reduce the debt.

**☒ Is the Privatisation Strategy encouraging implementation of the process?**

Encouragement of privatisation is very important for increasing the programme's strength and commitment, and that could be achieved in different ways, such as liberalizing the economy, etc. One of the ways is to issue laws or resolutions such as Number 60. Managers were asked if the strategy encourages privatisation. The managers' responses to PPAQ6 are shown in Figure 11.4.3.

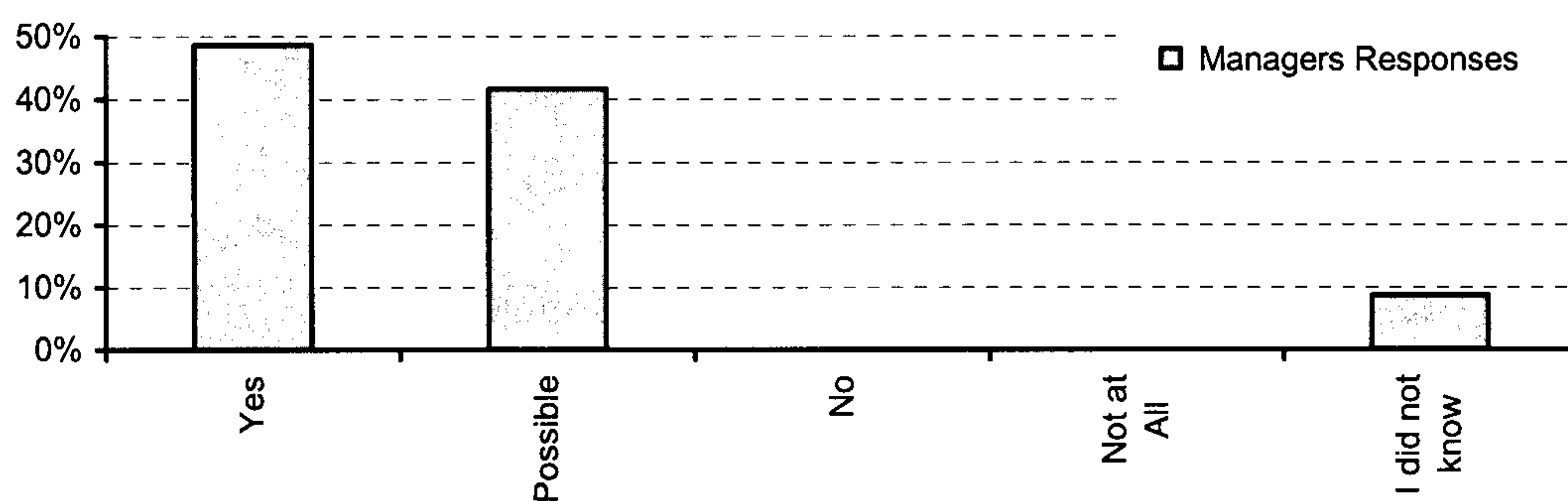


Figure 11.4.3 Managers' opinions concerning whether the strategy encourages privatisation.

First, 48.70% of them accepted that the decision encourages privatisation. Second, 41.74% of them thought this decision possibly encouraged privatisation, while 9.56% selected did not know. Finally, none of them selected "no" or "not at all". These results could mean that the private and public managers accept the decision, and that would encourage the process.

**☒ Goals could be achieved by implementing privatisation**

Managers were given five goals which could be achieved by implementing privatisation and most of them included more than one benefit, such as increasing efficiency and liberalizing the economy. The researcher implemented this method because most of these goals are related to each other, such as increasing efficiency mostly result of liberalizing of the economy. Managers were asked to rank these goals from very important to not important at all, and allowed them to select more than one response as shown in Table 11.4.1.

They agreed that liberalizing of the economy and increasing the efficiency as the first goal could be achieved, with 52.52% seeing this as very important and 36.52% as important. 10.96 % of them saw with this item as neutral and none of them agreed that this item is not important.



Increasing the competition and encouraging the private sector is the second goal that could be achieved, with 45.22% and 33.91% seeing this as very important and important respectively. The researcher tied these two items together because increasing competition will come through increasing the participation of the provider from the private sector. None of them accepted it was not important.

Table 11.4.1 Managers' responses concerning the goals which could be achieved by privatisation strategy.

Number	Goals	Managers Responses %				
		Very Important	Important	Neutral	Not Important	Not Important at all
PPAQ7	Change direction of national investment and increase the Government income	32.17	26.97	23.48	10.38	7.0
PPAQ 8	Widen the ownership in different projects.	29.57	32.17	20.87	12.17	4.35
PPAQ 9	Liberalize the economy & increase efficiency	52.52	36.52	10.96	0	0
PPAQ10	Reduce the size of public enterprise & develop other sectors	33.91	36.52	9.57	9.57	8.70
PPAQ11	Increase the competition & encourage the private sector.	45.22	33.91	20.87	0	0

33.91% of them thought that reducing the size of the public enterprises and developing other sectors would be achieved as the third. The managers realized that there were shortages in different sectors or services such as education, health and social affairs, so if the Government liberalized these entities that would impact positively on other services. 36.52% of them agreed it is important.

This goal could be selected by the public managers because they don't want the Government to reduce their entities and therefore their benefits. This goal is one of the Government's objectives in implementing privatisation; this could constitute a delay or barrier in implementation of the process. This was in agreement with the researcher's opinions when he selected the public managers as part of this research, and as one of the barriers in implementing the privatisation programme.

They agreed on changing direction of the national investment and increasing the Government's income, with 32.1%, and 26.97% choosing "very important" and "important" respectively as the fourth goal. Lastly, widening the ownership in different projects was one of the benefits that could be achieved. The researcher rearranged the options from the highest to the lowest as follows:

1. Liberalize the economy and increase efficiency
2. Increase the competition and encourage the private sector
3. Reduce the size of public enterprise and develop other sectors
4. Change direction of national investment and increase the Government income
5. Widen the ownership in different projects

**☒ Reasons leading the government to hesitate in implementing the process**

The researcher thought there were reasons for letting the Government hesitate in implementation of the programme. He listed some factors that could be causing this problem, as shown in Table 11.4.2. They were asked to rank these goals from "very important" to "not important at all".

Table 11.4.2 Managers' responses to the reasons for letting the Government hesitate in the programme.

Number	Reasons	Managers Responses %				
		Very Important	Important	Neutral	Not Important	Not. Important at All
PPAQ12	Cause unemployment.	23.00	23.48	24.35	20.47	8.70
PPAQ13	Change public enterprise policy & expose it to competition.	40.00	33.04	15.65	4.35	4.35
PPAQ14	Concern about private sector goals.	33.04	20.87	25.22	10.43	8.7
PPAQ15	Effect on the Government plans.	43.48	28.69	11.30	6.96	6.96
PPAQ16	Social and economic effects on citizens.	18.26	22.61	24.35	19.13	12.17

First, 43.48% and 30.43% of them agreed with "very important" and "important" respectively about the Government hesitating in implementation because it could change or affect their plans. Second, it would change the public enterprise policy and expose them to competition, with 40.00% saying "very important" and 33.04% "important". Third, they selected concern about the private sector goals,



with 33.04% selecting “very important” and 20.87% “important”. This percentage could have been selected by the public managers because most of them thought privatisation was more concerned with the private sector and its requirements.

Fourth, they realized these enterprises have a huge number of employees, and transferring their ownership may lead the new owner to release them, especially non-skilled employees (the highest proportion of the workforce). With 23.00% and 23.48% of all the managers agreeing “very important” and “important” respectively, this could cause unemployment. Lastly, the effect on social and economical aspects: with a score of 18.26%, this indicated they were not concerned about the impact of the privatisation on citizens.

The researcher thought the managers’ selection of this item scored lowest because they know the Government is responsible for protecting the citizens from the dangers of privatisation. Some of them did not respond to PPAQ13, 14, 15 and 16; their numbers and percentages were respectively 3, 2, 3, 4 and 2.61%, 1.74%, 2.61%, 3.48%.

The options have been rearranged from the highest to the lowest as follows:

- Effecting on the Government plans.
- Changing public enterprise policy & expose it to competition.
- Concerning about private sector goals.
- Causing unemployment.
- Creating social and economic effects on citizens.

**☒ Could participation of multiple organizations create a delay?**

In question PPAQ17 managers were asked about their opinions concerning whether the existing management structure of the strategy could constitute a barrier in implementation of the programme. They were given five options; their opinions are described below and shown in Figure 11.4.4.

They agreed the existing structure could constitute a barrier, with 56.52%. This result could be mixed between private and public managers. 11.30% of them were not sure and 18.26% of them did not have an idea, but 13.92 % (5.9% “no” and 8.02% “not at all”) of them rejected this view.

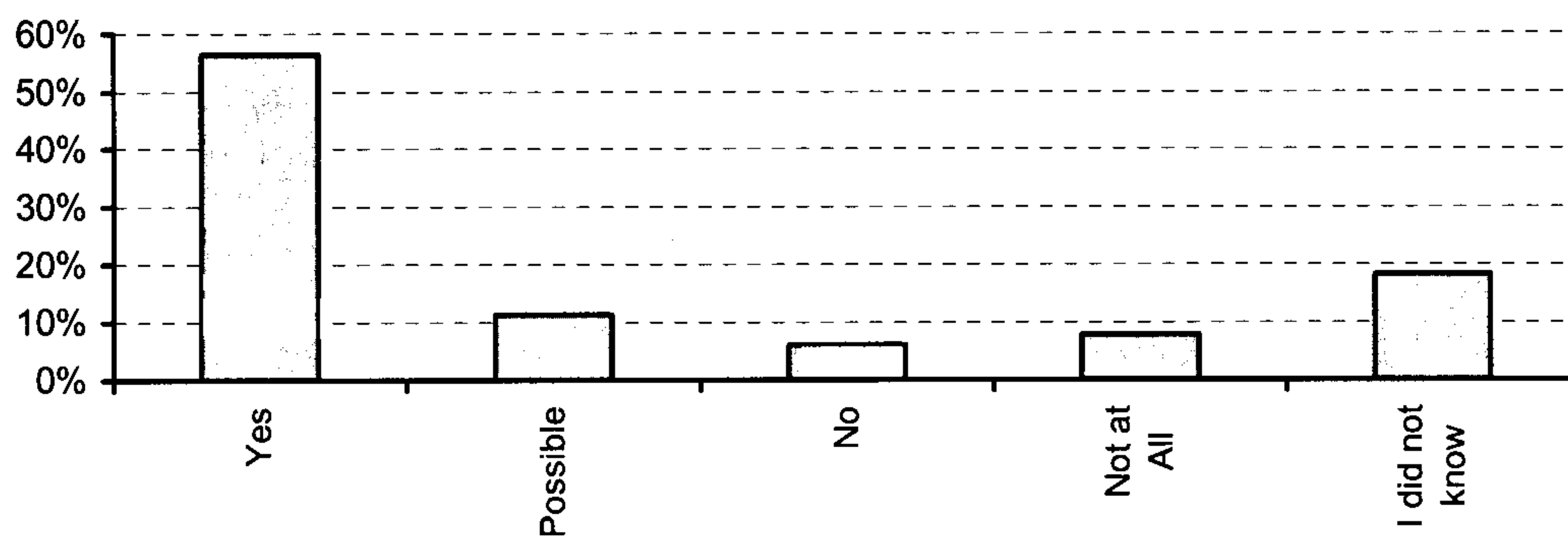


Figure 11.4.4 Managers' responses regarding whether the existing management structure constitutes a barrier.

**☒ Agreement of the managers on reducing number of the organizations**

Managers were asked in question PPAQ 18 if the existing strategy needs change or development by reducing the number of the organizations involved in management of the programme. The questionnaires explained briefly to the respondents the structure of the Privatisation Committee to give them some idea of its structure before anyone made a decision. The question gave them five options; their responses are described below and shown in Figure 11.4.5.

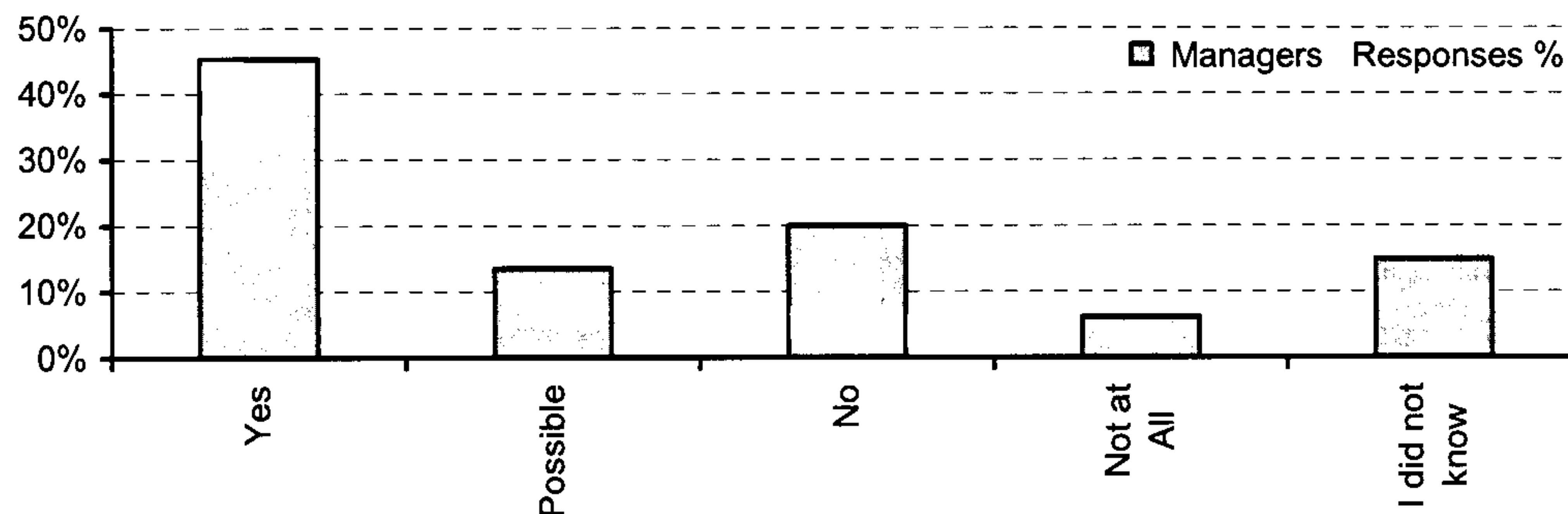


Figure 11.4.5 Managers' opinions on reducing number of the organizations.

45.22% of them agreed on reducing the number of organizations. Development of the structure allows for the Government to design, plan, speed up the process and eliminate bureaucracy and delay. Second, 20.00% of them answered "no" and 6.09% of them answered "not at all" on any development on management of the structure, which constitutes 26.09%; this percentage could represent the public managers; it could affect the process, hindering implementation of the privatisation and may constitute a barrier or delay. 14.78% of the total did not know. 13.48% of the managers were undecided between yes or no — that could refer to the shortage of knowledge or their uncertainty about whether the structure will work.



### ☒ Options for developing the privatisation committee

The researcher did a comparison between the privatisation committee in Saudi Arabia and other countries in order to discover if these organizations were equipped to perform their assigned tasks. It found this organization was not fully staffed and lacked different disciplines; this could affect the performance of the process, resulting in mismanagement and lack of coordination. In this question the managers were given four options that could be used for developing the Privatisation Committee. Developing the Committee allows for distributing the planning, working on their design, managing and coordinating the privatisation works in a more efficient and practical way.

The options were as follows:

- PPAQ 19. Keep the Committee: no change needed.
- PPAQ20. Keep it but support them with some experts.
- PPAQ21. Enlarge the Committee and add the missing units.
- PPAQ22. Establish a new organization bigger than the Committee.

Their responses are described below and shown in Figure 11.4.6.

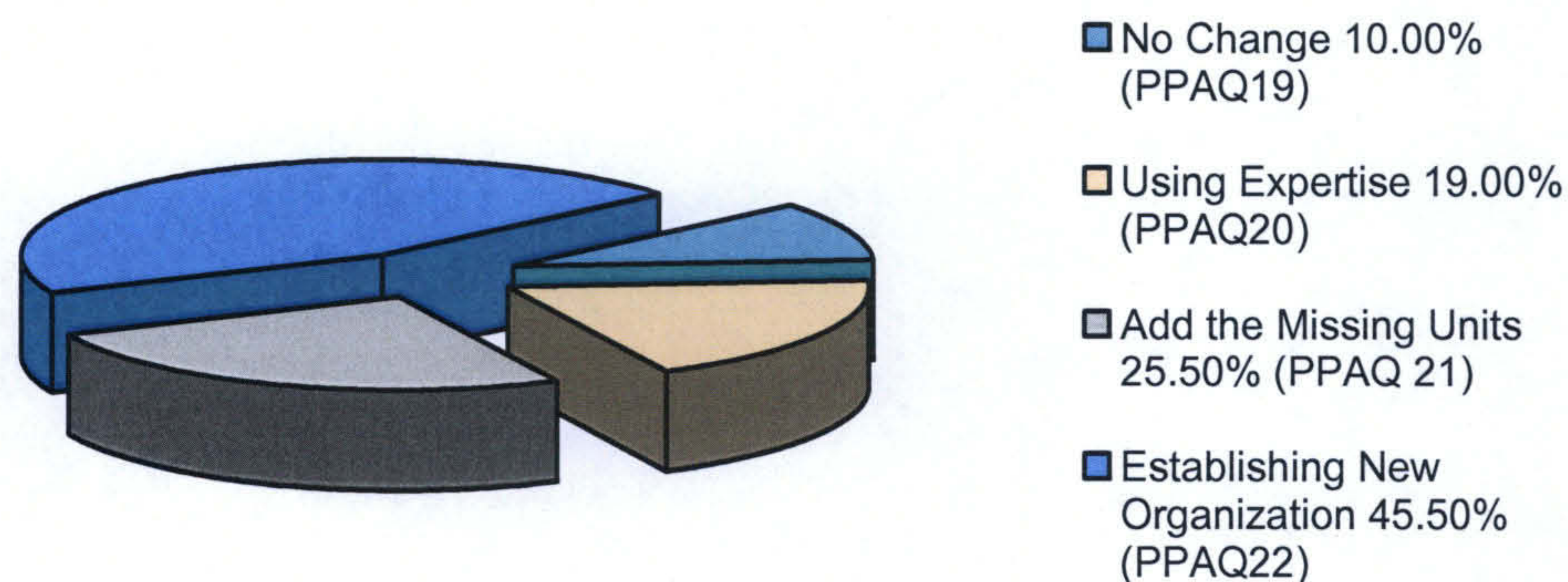


Figure 11.4.6 Managers' opinions on options of developing the privatisation Committee.

45.50% of the managers agreed on establishing a new organization for the Privatisation Committee. Some of them recommended that this organization be raised to the level of Ministry. This percentage could be a mix between private and public sectors. The researcher was surprised by this high score because both private and public managers know that if it becomes a Ministry this will increase bureaucracy and make the process longer.



The researcher also thought that one of the reasons for this percentage being high was that some of the public employees were afraid of handling new work such as privatisation properly, and would rather increase the organization's scope to deal with the issue. This option has more disadvantages than advantages, such as increasing Government expenses and bureaucracy. Establishing new organizations needs lengthy procedures and a lot of paper work, time to structure of the organization, selection of qualified employees, etc.

The next option accepted by them was enlarging the Committee (25.5%) and adding some of the missing units to the organization. There were some additional units or departments needed to make the committee work and allow them to complete their responsibilities professionally, such as planning, evaluation, marketing units, etc. This option could be used as an introduction to build big organizations in future if it is needed.

19.00% of them agreed on keeping the Committee as it is, but supporting it with some advisors and experts. This option has advantages and disadvantages: one of the advantages is that the Government can hire consulting officers in financial or technical fields without increasing the number of employees, but the disadvantage is that it could cost the Government a huge amount of money and this process would take longer.

The last option was keeping the Committee without change (10%). The options rearranged from the highest to the lowest after evaluation as follows:

1. Establishing a new organization bigger than the Committee.
2. Enlarging the Committee and add the missing units.
3. Keeping it but support them with some experts.
4. Keeping the Committee: no change needed.

#### **Researcher's comments and recommendations on the managers responses**

Agreement of the managers on liberalizing the economy as the first definition for privatisation would affect the process positively and could speed up liberalizing a variety of economic activities in different areas of public enterprises. This indicated that both public and private sectors accept liberalization of the Government entities or shares into a free market. Their agreement especially that of the public managers as the decision-makers in these entities, will be helpful in



liberalizing these economic activities. The positive impact on the enterprises will increase their efficiency and improve the performance of the economy and the sector.

They agreed on changing the management and system of the public economic activities as the second definition. The researcher thought that their acceptance to change of management could free the enterprise systems from bureaucratic layers. They selected these definitions as the most important because they know that if the Government begins with both liberalization and change of management this will lead to the other factors, such as improving the efficiency and performance of the enterprises. Liberalizing a variety of economic activities will help them in selling many properties in different ways and change the management when necessary.

The managers agreed on the Government decision to implementation of privatisation but that did not necessarily mean they agreed on the content of the strategy. While privatisation is a new policy and one of the most economically dangerous decisions to be implemented by different developing countries, the researcher thought their agreement was because they realized these enterprises had different problems and privatisation could rectify these problems.

The managers' agreement could be interpreted as acceptance of the new decision and this can be an incentive to implement the process on different enterprises. Also, it could be an incentive for the Government if the strategy lacks some information or does not cover all the matters related to privatisation, allowing them to develop the programme later to satisfy all the parties involved.

The managers' selection of liberalizing the economy and increasing the competition as the first and second goals respectively could be achieved by privatisation. These options could not be achieved unless they reduce and eliminate the investment barriers. The first step which could be implemented is studying the types of problems hindering the programme. This emphasised that the process is not an easy task: it deals with methods of implementation, eliminating the barriers, applying reforms or restructuring the economy or the sector, economical and technical matters, etc. Hence the programme needs to be fully understandable to all the people dealing with it, otherwise it will be delayed.

All of the managers are citizens and some of them work in the public enterprises and are therefore aware of the enterprises' problems, so all of them thought that the Government had hesitated in implementation of the privatisation. Their selection was in agreement with the speech made by the Minister of Economy in section 5.14 about the reason for the delay in implementation of the process..

There was other evidence which could indicate that the Government was worried about privatisation; they have different shares in other public enterprises or different economic activities: 70% in SABIC, 70% in STC and they own some sector or facilities fully such as hotels, but they did not liberalize them. Most of the enterprises had financial, management and operational problems while they were still dominated by the public sector. In addition, for a long time they had not changed their procedures in performing different activities, which creates bureaucratic layers in these organizations and leads to delays liberalizing them..

They realized that the Government's plan for increasing the private sector participation started a long time ago, and the Government had recently advanced the process by issuing the Privatisation Strategy. The managers agreed that the existing privatisation programme could constitute a barrier to implementing the process because the Government had issued a list of activities and services for privatisation without a timeframe for implementation; there were even tasks that had not been assigned. Furthermore, most of the major tasks in the strategy had been assigned to the public employees. They thought the Government should have updated the strategy and covered all the matters to encourage the investors to participate in multiple economic activities and speed up implementation.

Success or failure of any process depends upon the clarity of the procedures and method of monitoring and coordinating of all the process activities. The managers recognized that different organizations were involved in the implementation of the programme and they realized that it is necessary to apply some changes in the management structure.

Their agreement on developing of the structure or the strategy allowed for the reduction in the number of organizations involved in the process. Applying these changes could be a chance for the Government to make the strategy clearer and to distribute all the responsibilities between the authorities and increase the extent of



the coordination between them. The researcher agreed with the managers' opinions on developing the strategy and structure of the management. It could simplify the procedures and allow for preparing a clear framework with a timetable.

Most of the managers agreed on establishing new organizations. The researcher interpreted their responses as follows: first, the Government issued a list of services and projects for privatisation and most of them had not yet started or implemented their privatisation programme, therefore the process moved slowly while most of them, especially the investors, thought the new organization could increase implementation privatisation on different sectors and services.

Second, they thought the process needed an organization to study, design, manage and plan the programme in a more efficient way. Third, the existing Privatisation Committee had a shortage in different disciplines to help them in implementation of the programme. At the same time the Committee was dominated by the public sector employees, which could cause delays.

The process needs preparation of a variety of studies, and research and selection of the proper privatisation methods. All these requirements could not be handled by the public sector employees. Finally, some of the managers mentioned that the Government should speed up the process because there is competition between most of the Arabian Gulf countries in attracting investors and that will affect the investment environment in the country.

Establishing a new organization could affect the process negatively. The researcher disagreed with their opinions because this option could increase the bureaucratic layers in the process, make the process longer and cost more than the other options. He thought the third option of adding some of the missing units to the existing Committee would be more reasonable. Adding other units to them should be according to the Government's needs. Comparing this option with the managers' selection it is more practical in the long run in terms of realistic financial and operational procedures and administrative issues.

## **11.5. Appendix E: Role of the employees in implementation of privatisation**

### **Introduction**

This chapter investigates one of the most sensitive, dangerous and difficult problems associated with the implementation of privatisation. The success of the process depends on how the labour issues are addressed in the programme and how human resources are developed in the country. It is concerned with the redundancies/overstaffing of labour in the PSEs which is linked to the fear of raising unemployment levels; the political consequences of doing so could delay or slow down the reform process. It investigates whether this is the case and discusses the origins of the problem, its size, how it affects and is affected by privatisation, how the Saudi Government intends to face this problem and the methods that could be used to avoid it.

Managers' attitudes to the problem and the different compensation packages offered are also addressed. The researcher has investigated the effects of privatisation and competition on the employment system and the employees. It discusses other countries' experiences concerning whether their employees have been affected by privatisation, and the effect of their programme on the employees. This provides some evidence about the effects each can have on the other, and how these countries dealt with them. These experiences could present to the researcher some alternative solutions to minimize or avoid these effects on the employment system in Saudi Arabia.

Also, it allows the officials in charge of planning and managing the privatisation programme and labour market to re-design and develop the Labour Law to fit the nature and needs of these employees who are working in different enterprises. The researcher investigated Saudi Airlines as a case study in support of his research into how this factor constitutes one of the barriers to implementation of the privatisation programme in the country.

The opinions of private and public sector managers regarding labour issues in the PSEs in Saudi Arabia about the problems in privatisation are presented. The managers' opinions have been taken since they are more experienced people who have knowledge of the private and public sector and the expected problems that might hinder privatisation implementation on the PSEs from the labour side. It



focuses on orientation of the managers towards the enterprises employees. The chapter will conclude with the researcher's assessment and comments.

### **Purpose of studying effects of privatisation on employees and vice versa in Saudi Arabia**

This chapter is important for several reasons. First, it reviews experiences some countries implemented privatisation, which will present the Government with some of the problems they could face with employees in the future. Second, through investigation of the literature review, the researcher found this is one of the major problems which could constitute a delay or barrier in the implementation of privatisation and could lead to hindering the programme.

Third, the programme was recently implemented in the country and the Government put the process on their first agenda. Fourth, to date, the effects of privatisation or employees vice versa after implementation on labour in Saudi Arabia have not been studied; the researcher wants to evaluate the privatisation effect by and on employees; therefore, there is a considerable need for theoretical and empirical studies of the effects of privatisation on labour and vice versa.

In addition, this study is expected to give some essential information on how the Saudi labour force regards these issues. This information can be used by the policy-makers or the privatisation decision-makers to help them in making the transaction as smooth and effective as possible.

At the same time, the Saudi market is now more open to the foreign investors than ever before, so this allows the investors to get information about the characteristics of the labour force, and allows them to be able meet their needs, which may lead to higher rates of production and efficiency. Finally, the Government plans to implement privatisation on most of the public enterprises, which means that most of the jobs in the public sector will be privatized, and there are huge numbers of Saudi employees working in these enterprises.

### **History of employment in Saudi Arabia**

This section gives some information about the history of the employment in the country e.g. size, characteristics of the employees, etc. Diwan and Girgis (2002) stated that:

First, the public sector has played two important functions in the past three decades; the second, function was centred on providing job opportunities to young educated Saudis, not only in the government ministries and agencies but also in SOEs. They added "the Government finished this phase mainly with imported labour skills".

Al-Kurdi (2004) explained how the Saudi Government took labour issues and their affairs seriously, by separating "the Ministry of Labour and Social Affairs into two different independent ministries, hoping that more attention would be given to the issue of labour and the issue of indigenization of the labour force in Saudi,". They offered jobs in the public sector employment for every adult graduate from primary up to higher degrees. Further, the Government allowed different agencies to recruit from different Arab and non-Arab countries to fill these vacancies in various fields.

A recent study prepared by Al Baker [139] indicated the distribution of the total labour force, along with their level of education, in Saudi Arabia's regions. Between 64.96% and 84.94% (with an average of 70.63%) have no high school qualification, as shown in Table 11.5.1.

Al Baker's study estimated the total Saudi labour force is 2,281,792 employees: 70.63% of these (1,611,616 employees) have lower than high school education. The employees qualified to high school level or above constitute 29.37% of the workforce (670,176 employees). The researcher interpreted these figures as follows:

- The study includes both public and private sector so this means the most qualified and more productive hands will be in the private sector, because they looking for qualified employees with proper education and enough experience in different fields.
- The public sector has less qualified and lower productivity employees. The researcher based his findings according to the investigation in Chapter Four.
- Keeping a huge workforce in the Government affects their budget through spending huge amounts in salaries on less qualified and low productivity hands.
- 70% of the public sector employees have low education, which could affect the sector productivity, quality of the work.
- This problem could emphasise that the public sector has a problem of excessive employment in different enterprises.



- These enterprises have a huge number of employees because government policy allows recruiting both qualified and unskilled; the private sector has specific criteria e.g. productivity, qualification and experiences, etc. for employee their workforce.

Table 11.5.1 Total National Labour by Region, [139]

Regions	Total Labour Force	Total Labour Without High School	% Total labour Force	Total Labour With High School +	% Total Labour
Riyadh	531,377	345,202	64.96	186,175	35.04
Makkah	537,406	359,213	66.84	178,193	33.16
Jizan	111,047	91,106	82.04	19,941	17.96
E. Province	399,833	278,875	69.75	120,958	30.25
Asir	179,206	142,986	79.79	36,220	20.21
Al Qasim	102,428	70,976	69.29	31,452	30.71
Hail	56,726	43,922	77.43	12,804	22.57
Al Madinh	136,911	98,511	71.95	38,400	28.05
Al Bahah	36,470	24,874	68.20	11,596	31.80
N. Province	34,024	28,619	84.11	5,405	15.89
Tabouk	80,968	67,002	82.75	13,966	17.25
Najran	37,916	32,204	84.94	5,712	15.06
Al Jof	37,480	28,126	75.04	9,354	24.96
Total	2,281,792	1,611,616	70.63	670,176	29.37

- Transferring them to the private sector could be difficulty and could negatively affect private sector productivity, which could lead them to release most of these employees. This increases the number of unemployed in the country and results in financial and social problems for these former employees.

#### **Public sector spending on salaries**

The previous section indicated the public sector and its enterprises have a huge workforce; this section allowed the researcher to recognize if the Government budget suffered from paying huge salaries. The Ministry of Civil Services reports that 118,570 Saudis were added to already swollen government payrolls during 1995-1998, an annual average of 30,000 [131]. The public sector employees



increased the extent of the effect on the Government budget through paying these salaries, as shown in Table 11.5.2.

Table:11.5.2 Government salaries bill as a percentage of government spending and oil revenue [140].

Year	Government Salaries bill as a % of			Investment spending as % of govt. expenditure
	GDP	Govt. budget	Oil revenue	
1994	18	53	71	18.8
1995	16	51	58	21.0
1996	16	51	45	22.2
1997	24	59	59	14.9
1999	23	60	92	13.6

The above table shows how the government budget is affected by the salaries bill as a percentage of government spending and oil revenue. The available data shows that the wages alone accounted in 1994 for 18%, 53% and 71% respectively of GDP, the government budget and the oil revenues. By 1999, these numbers increased to reach 23%, 60% and 92% respectively. At the same time, the public investment spending was squeezed, from 18.8% of GDP in 1994 to only 13.6% in 1999. One important characteristic of Saudi employment in the public sector is the high wages compared with those of the private sector, as illustrated in Figure 11.5.1.

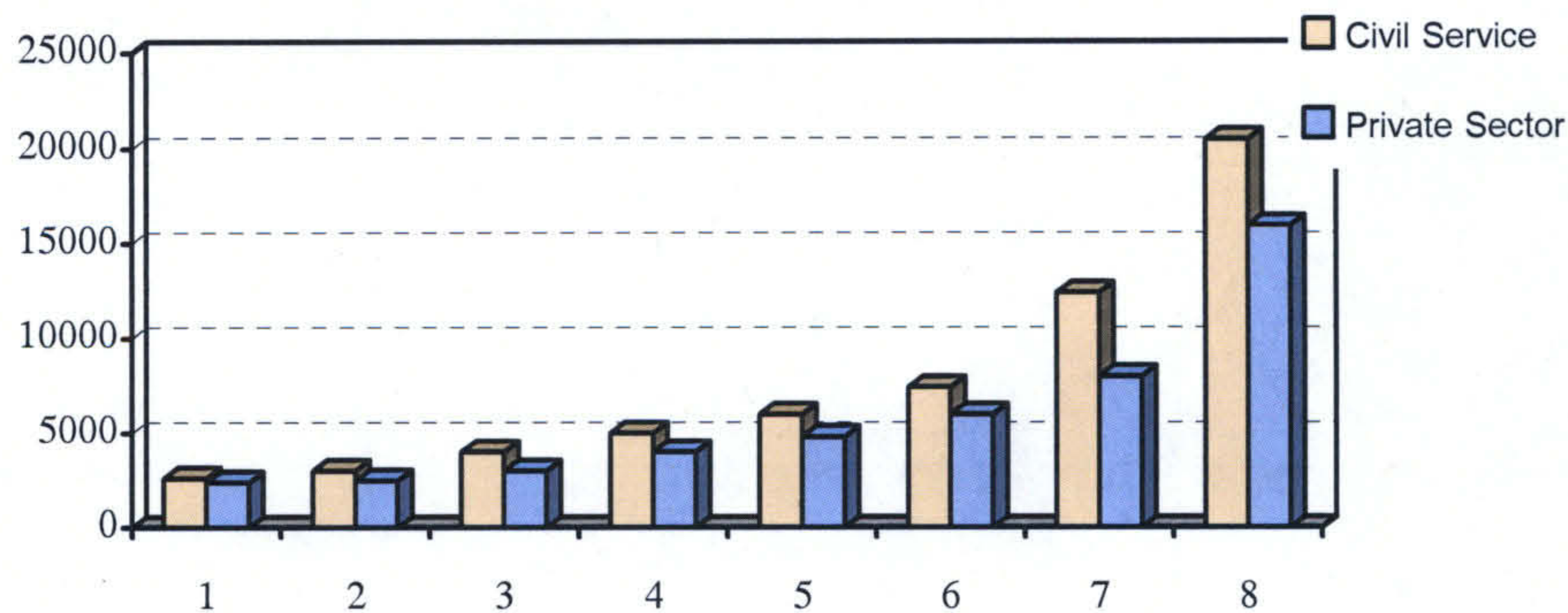


Figure 11.5.1 Civil service & private sector monthly wages thousands SR [ 140 ].

This indicates that the public sector in Saudi Arabia suffered from paying huge salaries. These salaries constitute a high percentage of the GDP, government budget and oil revenue, and the percentage is still growing. In 1994 those



percentages were 18, 53 and 17, and then in 1999 they increased to 23, 60 and 92. The Government payment increases the pressure on the budget; this indicates that they should take quick action to increase liberalization of several economic activities and speed up implementation of the privatisation. This helps to alleviate the burden on their budget and attract more employees to the new companies.

### **9.8 Source of the problem**

Some public enterprises have various problems related to the employees, such as low productivity, overstaffing and staff with less experience and/or low qualifications. All these problems impacted negatively on efficiency and revenues of the enterprises. Selling or transferring the PSEs to the private would either be unattractive for the private investors or else they would discount the sale price, leading to lower sale revenues and potential public opposition, or unwillingness to participate. Prajapati described the problems of the public sector thus:

They expanded their agencies, all of which put a great burden on these agencies, which were assigned new duties and responsibilities that required more employees to handle the new positions. The Saudi Government tried to fill vacant positions in those agencies by offering jobs for all adults in the public sector or in the enterprises for every primary to higher degree graduate, plus imported labour and skills that manned the new assets [102].

At the same time, the Government offered a free education system from primary school level to the highest post-graduate levels in the Saudi universities. In addition, they offered scholarships to all students who had finished their high school and bachelor degrees to study abroad to complete their studies in different degrees and fields. In addition, employment offices were established all over the country in major cities, and immediately recruited any adult holding primary school or university certificate in the public sector or its establishments, regardless of whether the work was required or of the graduate's specialization.

Also, the Government allowed most of the agencies to recruit internally or abroad. The main goal of the Saudi Government was to fill the vacant positions in these new agencies. There were other reasons for the increasing job uptake in the public sector, such as the growing population (up to 3.9%); also, most of the citizens believe that the Government is obliged to absorb the increase in the labour force for social and political reasons. The total public sector contribution to labour absorption was approximately 88%. Government policy raised the number of job

seekers to unmanageable levels. However, since the early 1990s, the government has been entering a new development phase with a history of young nationals in large numbers willing to enter the labour market, as shown in Table 11.5.3.

The numbers at university level have roughly doubled in this period for both male and female students; the number of males increased from 188,000 in 1992 to 366,000 in 1999, and females from 54,000 to 120,000. These figures mean that there was an average increase every year, for males by 22,250 and for females by 8,250. The Saudi American Bank estimates that 817,000 Saudis have entered the labour market from 2000-2004, or an average of 163,000 a year. It also assumed an average of 30,000 new public-sector and 50,000 new private sector jobs a year. This means 80,000 annual hires out of the 163,000 annual new entrants, leaving an additional 83,000 unemployed per year [131].

This emphasised that in the future the employment system in the Saudi public sector and its enterprises would face a massive challenge in employing these numbers, especially the government budget burden, with a huge wage bill for this large number of employees.

Table 11.5.3 Distribution of the Saudi population by education level, 1992 & 1999 (thousands) [141 ]

Education Level	All Males		Males 20-29		All Females		Females 20-29	
	1992	1999	1992	1999	1992	1999	1992	1999
Literate	414	226	54	22	1,342	1,118	286	179
R&W	965	836	76	43	848	900	112	100
Primary	1,073	1,277	252	221	714	993	163	175
Intermediate	666	973	304	299	389	721	131	204
Secondary	401	647	245	357	292	563	195	374
Diploma	82	141	30	43	46	137	31	87
University +	188	366	67	134	85	220	54	120

Also, the new graduates were looking for governmental jobs: if these were available the waiting time was still between 3-5 years. Some of the jobs paid low wages, but most graduates were happy to take them. This could suggest that they were willing to get the lifetime security offered by such employment, coupled with the undemanding work conditions; this seems to be very attractive proposition for many job seekers in Saudi society.



In addition, many of the graduates, especially those who had graduated from non-science or vocational colleges, were more highly qualified than other graduates; the less-qualified graduates were forced to wait for government jobs because most of the vacancies available in the private sector were mostly offered to the graduates who had vocational studies, experience, and were very hard workers. They did not possess these criteria, so they did not have any other alternatives except waiting for a government job.

So the Government was forced to employ labour exceeding their real needs, which affected the quality of production and lowered productivity. There were jobs that needed only one person to perform them, but it was very common to recruit more than one person, which increased the burden on the Government budget. The monthly salaries paid for these excess employees represented concealed subsidies for non-producing and unqualified labour. Furthermore, the unemployment rate in Saudi Arabia stood at about 14 percent by the end of 2000, as estimated by the Manpower Council. Also, Al-Baker's study (2004) indicated the size of the unemployed labour force in Saudi Arabia regions, which formed almost 13.44 % of the total labour force (a total of 306,572 employees) as shown in Table 11.5.4.

The problem of unemployment in Saudi Arabia was described by Al-Modaf as "...a particular problem among Saudi nationals because they lack the vocational training and experience in the market. In 1999/2000 the total population survey indicated that more than 60% of the population, i.e. 15.7 million, are eligible for work. The survey indicated that the number of young (under 16 years) employees is growing, from 4% to 6.2%," [27].

In addition to what was stated in the Privatisation Strategy many Saudi human resource departments are currently facing difficulties in finding employment owing to lack of skills and competition from foreign workers, in addition to the problem of excess labour beyond the requirements of enterprises that are targeted for privatisation.

Table 11.5.4 Unemployment in Saudi Regions,% [139].

Regions	Total Labour Force	Unemployment	Percentages
Riyadh	531,377	55,226	10.39
Makkah	537,406	65,969	12.28
Jizan	111,047	23,715	21.36
E. Province	399,833	52,025	13.01
Asir	179,206	23,591	13.16
Qasim	102,428	12,676	12.38
Hail	56,726	13,757	24.24
Al Madinh	136,911	32,745	17.34
Al-Bahah	36,470	5,822	15.96
N. Province	34,024	6,752	19.84
Tabouk	80,968	9,444	11.66
Najran	37,916	6,779	17.88
Al-Jof	37,480	7,071	18.87
Total	2,281,792	306,572	13.44

In this table there were 306,572 unemployed people; also, more than 60% of the country's population is aged between 15-25 years. However, the Government currently intends to limit any further expansion of the public sector employment, while according to the Al-Baker study the country creates only about 29,000 jobs per year. The Government policy concerning employment was gradually started in the 1980s, and declined with the shortage of Government financial resources which forced them to slow down the recruitment and eventually stop.

This problem showed clearly in the beginning of the 1990s — one of the major contributory factors was dependence on oil as the main resource for the budget at a time when the oil prices dropped from \$20 to \$7 per barrel. The high unemployment — especially in a country which has the second largest reserve of oil in the world — created the problem of reducing the public sector employment as a consequence of introducing liberalization, and implementation of the restructuring and privatisation on different public enterprises.



## **Future of the employment in the public sector**

The previous section explained the problem in the public sector — this section will investigate the future of the employment and the difficulties which will face the country in the future. The Ministry of Economy (2000) described the difficulties and challenges in the employment in Saudi Arabia:

Greater efforts are needed during the Seventh Plan to enhance the private sector's capacity to provide job opportunities for the steadily growing number of new Saudi entrants to the labour market, particularly as their absorption into the government sector will be difficult. Notwithstanding the fact that the private sector provided about 473,500 jobs for Saudis during the Sixth Plan in 1995-1999, compared with about 154,700 jobs provided by the government, the number of Saudi nationals still constitutes a modest percentage of total private sector employment.

From the above study the researcher prepared a comparison between private and public sectors and their efforts in employing nationals. It found that the public sector had absorbed 30,940 while the private sector provided 94,700 jobs every year. This indicated that the capability of the public sector in producing more jobs will be weak, and the private sector can employ almost triple the public sector. These two figures indicate that both public and private sectors can provide 125,640 jobs annually.

This means there are greater efforts needed from the Government in future plans. These efforts should be applied by the Ministry of Labour to enhance the private sector's capacity to provide more job opportunities for the steadily growing number of new Saudi entrants to the market. At the same time they need to increase liberalization of different economic activities, which would help to open different economic activities and attract more employees.

The Ministry of Economy classified the constraints facing Saudization as being: The high cost of employing Saudis relative to non-Saudis impedes the application of Saudization in the private sector, particularly for labour-intensive activities in the service sectors; The Ministry of Labour issuing a decision to reduce unemployment and release Saudization, and requiring private enterprises with 20 or more workers to increase the share of Saudis in the total employment by 5% annually, with the goal of achieving a 75% ratio. This decision could be helpful in increasing the number of Saudis employees in the private sector. It points to the importance of enhancing the qualifications of Saudis to match the productivity of

foreign workers.

These points indicate that they will face different challenges in the future, such as:

- Employing newly graduated Saudis in the public sector.
- Reducing the level of unemployment.
- These decisions could face resistance or opposition from the private sector.

The Government could apply different procedures to improve the employment system in the country, e.g.:

- Increasing liberalization of different economic activities in the country which would attract more Saudis in different markets and fields.
- Increasing coordination between different ministries and organizations such as the Ministry of Education, Higher Education, Labour, Commerce and Industry and the private sector. That will allow it to study the types and size of the jobs available in the market, how to attract the Saudi's to these jobs and methods of developing the employment market.
- They have to provide different types of free training programmes to cover the market needs, especially the private sector requirements for vocational workers. This could happen through utilizing the available public training facilities efficiently, by providing the required programmes from the public and private institutions.
- Supporting the small and medium companies financially, technically and operationally to allow them to attract more Saudi employees; the government can agree with the private sector to pay part of the employees' salaries up to a certain time (it could be specified up to the first year, for example).
- They should consider the decision of the Ministry of Labour to increase the number of Saudi employees in the private sector, and that decision should not affect the investment environment and privatisation process.

### **Redundant employee problem in the public sector**

#### ***Introduction***

Most of the developed and developing countries faced this problem during implementation of the process and it is one of the major obstacles hindering the several of privatisation programmes. Normally, privatisation of the PSE is



associated with releasing the redundant labour, especially non-productive manual labour, which will affect their social and financial life. In addition, most of the privatisation strategies did not discuss how to deal with the redundant employees in the enterprises. There are some methods available to help deal with redundant employees, as described by Al-Bazia (2002):

They should solve this problem by preparing a plan, for example, to give them shares or discounted shares or providing training for them; the Government should protect them for at least the first five years after privatisation to improve their capabilities to handle their work with training or at least give them flexibility for early retirement and compensation.

### ***Size and characteristics of the redundant and unemployed workforce***

Determining the redundant employees is not easy, as confirmed by Svejnar et al.(1991): “It is very difficult to specify or to determine the extent of labour redundancy in an enterprise,” especially when discussing the Saudi labour force, which is one of the new employee markets. Also, the country is under development, adding to the difficulty of predicting these figures. In fact, there is no specific method which can be used to measure the size, specialization or distribution of redundant labour in the PSEs.

However, some studies indicate that there is overstaffing in the Saudi labour force; for example, Al-Bazia (2002) compared Saudia Airlines with 12 other international airlines, and found Saudia has a huge labour force and very low income, which indicates very low labour productivity and performance, while it has the lowest crew size compared with the other companies. As mentioned above estimation of the redundancy in any organization is difficult but these two papers indicated that Saudia airlines has overstaffed by 20%. Also the Privatisation Strategy mentioned this problem: “...showed the problem of excess labour beyond the requirements of enterprises that are targeted for privatisation.”

Redundant employees can constitute a major factor hindering implementation of privatisation and affect the performance of the enterprise if they do not deal with this matter sensitively and with full transparency. The Government should implement different incentives to reduce workforce resistance. There is no accurate information about the size of the problem, but the management in the targeted enterprises should study and determine the total number of redundant labour. They could study the size of the redundant labour force, their productivity

and costs, and compare these with the productive section of the workforce; all of that will allow the managers to prepare a plan on how to deal with them.

The Saudi labour market also has the problem of unemployed: Al-Baker's study of the characteristics of this group showed that most of them have a low education attainment (as shown in Table 12.5.5) ranging from 77.58 - 93.29%, with an average 83.01% of the total local labour forces having lower than high school level qualifications, while between 6.71 - 22.42% (an average of 16.99%) have high school qualifications or above. Starting from the mid 1990s unemployment has been largely concentrated among those aged between 15 and 25 years with intermediate and university degrees; most of them have low education and with no previous job experience.

Table 12.5.5 Unemployed according to educational attainment % 2004 [139]

Region	Total Unemployed	Total Unemployed Under High School level	% Total Unemployed	Total Unemployed High School +	% Total Unemployed
Riyadh	55226	42,842	77.58	12384	22.42
Makkeh	65969	52,627	79.78	13342	20.22
Jizan	23715	22,123	93.29	1592	6.71
Eastern Province	52025	41,145	79.09	10880	20.91
Asir	23591	20,832	88.30	2759	11.70
Al-Qasim	12676	10,859	85.67	1817	14.33
Hail	13757	12,485	90.75	1272	9.25
AlMedina	23745	20,613	86.81	3132	13.19
Al Bahah	5822	4,718	81.04	1104	18.96
Northern Province	6752	5,996	88.80	756	11.20
Tabouk	9444	8,283	87.71	1161	12.29
Najran	6779	6,184	91.22	595	8.78
Al-Jof	7071	5,785	81.81	1286	18.19
Total	306572	254,492	83.01	52080	16.99

This table shows that the highest rates of unemployment and redundant labour have been concentrated mainly amongst the youth, which is the average



graduating age, and this is one of the most dangerous problems that could face the Government in the future. Furthermore, in each year there are 183,000 young Saudis entering the labour market, but it currently creates only about 30,000 per year in the public sector (although this figure can be less or even zero). All this indicates that there is a huge number of the labour force who will be affected by privatisation unless they issue a law to protect them or provide them with some incentives, such as training, etc.

Although it is hard to determine accurate characteristics of the redundant labour, these studies and tables would be fairly indicative when studying the nature and characteristics of the unemployed; some of the studies prepared by Al Bazia, Al-Bakr, Prajapati, [83] ,[139] and[102] were used as indicators in this section.

### **Comments on unemployed and redundant labour**

The Government's plan for the next few years concentrates on employing most of the Saudis in the private sector, and most of the jobs will be created in this sector. This sector will become more active than the Government in attracting more employees. While most of the unemployed are concentrated amongst the young people, whose ages range between 15 and 25 years, they do not have enough experience, and at the same time their education levels are low. Also, they do not have any financial resources or any economic activity to start their own business and the private sector recruitment criteria would exclude this group. They have to accept waiting for Government jobs, which could create pressure on the Government to employ them.

The Government can attract new employees and employ the redundant labour by liberalization of different economic activities in the country, which increases the creation of new companies and jobs; after providing different training programmes according to the market requirements. All these procedures are very important otherwise the redundant, the unemployed and the new graduates employees would be affected thus creating economical, social and security dangers for the country and for themselves.

In addition, these training programmes should be planned and related to the market needs, because most of the new graduates lack experience and their studies are not related to the private sector requirements. This needs coordination

between the public and private education institutions to know the market requirements in terms of the following: total number of the employees needed in the future; types of the jobs needed in the market; methods of attracting the employees; types of the training needed. Liberalizing of the economic activities in the public sector allows the private sector to participate and handle some of these requirements, which would allow them to create more investment and jobs.

The Government lacks experience in methods of dealing with the redundant employees. The researcher proposes the following points, which could help them to deal with these employees:

- Securing the employees' jobs and careers by issuing a law and presenting some incentives to them to implement the process smoothly.
- Working sensitively with the redundant labour force by discussing this matter with them and taking their opinions in several matters and types of schemes.
- Dealing with the process should be fully transparent by issuing annual reports on this problem and methods of dealing with different matters.

For implementing the programme without opposition they should study the employees' conditions before proceeding in the privatisation. It should consider matters e.g. what types of options could be presented, what effects may result, etc. all these should be considered, otherwise the process will face opposition from the employees.

All this indicates the Government should be working intensively and seriously in order to increase job opportunities in the public and private sectors, through increasing the investment opportunities in the PSEs or various of public economic activities to help absorb the growing labour force. Their efforts should go parallel with increasing the employees training programmes, especially the vocational studies. This could be achieved by establishing technical and scientific colleges and universities in private and public sectors and preparing studies which help the Government in implementing these type training.

## **Employees and privatisation**

### **Introduction**

Most of the studies and reports prepared by scholars and governments indicated that privatisation procedures and employees affect each other in various ways.



First, job losses are one of the major effects of privatisation on employees, a policy sometimes adopted by the new owner to reduce the expenses of the company or the service. Before participating in any commercial activities, the private sector looks for benefits and profits, so they study all related areas.

One area concerns the employees, in terms of the following points: studying the employees' salaries; types of qualifications the employees hold; structure of the workforce; types of education and training the employees undergo; experience of the employees acquired in their previous employment and; productivity of the employees and the company. Private sector incentives and promotions are tied to employee productivity, working hours and marketing of the company products and services. They need to increase employee efficiency and performance of the services, and also to utilize and improve the resources efficiently. In addition, they sometimes award minimum salaries to qualified employees. All these factors indicated that the employees' co-operation is essential to success in the privatisation.

Employees can oppose privatisation in different ways; one of the most common is resistance to implementation of the process, creating delays in its implementation. Some countries changed their programme to achieve reasonable solutions and keep their labour force satisfied. The next two sections study the types of effect privatisation could have on employees and vice versa.

### **Effects of privatisation on employees**

Employees have a major role in the implementation of public-private partnership, as described in this report:

From the narrow perspective of the PPP contract, there are only two partners. But in reality, there are additional parties and interests that need to be on board as "partners" for the partnership to succeed. These include the customers of the service and the employees who will operate or deliver the service. A PPP cannot succeed without the support of the end user of the service or the agreement of those who will ultimately deliver the service. A four-way partnership is required to move service provision from the public sector to a partnership arrangement successfully [15].

There are several authors that have confirmed the various effects of privatisation, such as Birdsall and Nellis (2003): "The evidence indicates that more people have lost jobs than have gained them through privatisation,". Weizsacker, et al. add (2006):

Some employees are affected by privatisation, as happened in Bangladesh and Nepal, which experienced heavy employment losses in the former state enterprises without gaining much in state revenues. This led to the immediate loss of 3200 jobs in Nepal, although some workers were re-employed on a contract basis. In Bangladesh, privatisation led to an aggregate downsizing of the labour force of the enterprises by about 25%; in Sri Lanka the figure was 17%.

In addition, Chong and Lopez and Alexandre and Charreaux mention some of the other effects: "Privatisation has a direct impact on the employees in different areas. Negative perceptions of the privatisation process with respect to labour force and large-scale job losses have been associated with privatisation and the effect of privatisation on employment, because privatisation is often associated with downsizing,"[48],[50].

Some major changes took place after implementing privatisation, as many expertises have emphasised: "A review of previous research and studies shows that different changes and effects on the employees followed privatisation as follows: types of employment and jobs in the country; methods and criteria of recruitment; methods productivity evaluation, hiring and firing; incentives and promotions; flexibility and work load and; salaries, wages, and job security," [34], [146], [31],[147],[148].

### ***Effects of employees on privatisation***

Employees also have an affect on the process, as this section has shown and confirmed by several experts such as Hensley and White (1993):

During implementation of privatisation, most of the developing countries suffered from opposition by employees because they delayed their privatisation and that slowed the economy's growth. That was found in the Malaysian programme, so employee co-operation is very important. These are some of the key problems that the programme has encountered. Resistance of the workers in the public sector has led to the delay of several planned privatisation, according to the Malaysian government in 1991.

Also, Aghion (1994) et al. emphasised other types of employee effects: "Workers will resist the necessary adjustment of employment; they tend to have an interest for higher wages, keeping retained earning low and not building capital so that asset stripping may occur," Ramanadham (1991) described how the opposition of employees typically came about: "Labour usually sees itself as especially likely to be affected by privatisation. SOEs often pay higher wages and maintain larger



work forces than the private sector. Not surprisingly, therefore, the employees of SOEs and their trade unions often oppose privatisation.”.

Employee resistance is one of the dangers of opposition in implementing the privatisation process; the Government’s role is to come in at this stage to plan implementation of the process, and to consider the issues related to the employees. Different countries did not give these matters enough thought, so their programmes had an effect by and on the employees. The employment market should be studied before proceeding with privatisation to minimize the effect of the process and reduce the social and economic dangers to the employees.

The role of the manager in this scenario was described by Stan: “Many managers of state enterprises prolong privatisation negotiations to such an extent that closing a deal becomes a real struggle for investors,”[150]. Some countries had labour unions, which allowed them to organize their employment market and create opposition to privatisation programmes.

Employee issues are not easy to resolve and the Saudi government may face difficulties, especially since the country does not have enough experience in such matters, and there are no unions for them to deal with. This could constitute a barrier to privatisation and may lead to slowing the process down, especially when most of the enterprises are targeted for privatisation. The country lacks such organizations, but they can establish an office to organize and manage matters related to the employees. Establishing this office would allow for discussion and negotiation about such matters with the Government and the private sector.

In conclusion, as shown above, privatisation and employees have different effects on each other. Employees can affect the privatisation in various ways as follows: resisting and creating opposition to the process at different levels, especially senior managers, looking to block the privatisation; delaying the programme and; lengthening implementation of the process. Resistance of the employees is caused by different factors as follows: job losses, lower wages and fewer benefits.

This factor is one of the major problems facing privatisation, and implementation of the programme depends on employee satisfaction. However, that did not mean all privatisation faced resistance or job losses; some countries were not affected by such problems, because they considered them from the beginning of the

programme. They prepared a full study on how to implement privatisation and restructure the workforce with improved conditions.

### **Could employees be affected by the implementation of privatisation in Saudi Arabia?**

This section will study the impact of privatisation on the PSEs employees. The aim of this section is to discover what effects may occur, the limits of these effects and methods of planning and managing such change. There is a shortage of such studies but the researcher found two studies as shown below. The first and most recent study on the effects of privatisation on employment, a study of undergraduate college students in Saudi Arabia, is that of Al-Modaf, who surveyed 672 students concerning the anticipated effects of privatisation on the employment system of the Saudi privatized SOEs.

They study mentioned some of the SOEs face structural problems and large financial deficits but could be profitable for private owners; for example, the STC, SEC1, Saudi Airlines, etc. will be sold, leased, or transferred, or the services provided by these companies would be contracted out to the private sector. Al-Modaf added aside from the various economic changes (e.g., efficiency, input/output, or profit), previous research indicates that privatisation of the SOEs leads to changes in certain aspects of the employment system (e.g., employment type and recruitment system; promotion and salary system; workload and work time; job security; and behavioural attributes) in these SOEs.

He concluded that privatisation of the SOEs in Saudi Arabia is expected to cause significant changes to the system of the employment in these enterprises. Significant changes have already been found when this process has occurred in other countries [27].

The second study was prepared by Husain (previously mentioned in section 3.2.6 but repeated here for the benefit of the study). The study surveyed 575 employees of Saudi Airlines to discover their attitudes toward privatisation in the airline industry. The study findings mentioned that with regard to job security, respondents thought privatisation would result in some layoffs, an increase in salaries, and the current employees' having to pursue extra training in order to remain employed by the new owner. The statistical analyses mentioned that



position in the organization; salary and education all affect the opinions of respondents.

Husain (2001) added that the workers in the technical positions show less fear of layoffs than did those working in administrative or other positions, and those with high levels of education felt more secure than those with lower levels. In addition, he recommends more communication with employees to outline the government's privatisation process and assure workers that their interests are fairly represented, and early and voluntarily retirements should be encouraged.

In conclusion, the Al-Modaf and Husain studies investigated effects of the privatisation on the employees. The first study indicated transferring of the enterprise from the government to the private sector is expected to cause significant changes to the system of employment in these enterprises. The second study mentioned that the administrative employees face more layoffs and the less educated feel their positions are insecure. This is another problem of the public sector in Saudi Arabia because it has a huge number of administrative and low-education employees.

This supports the opinions of the researcher that the government should issue laws to protect them, otherwise the employees will be affected and the programme will be delayed. Employment type, recruitment methods, promotion and payment system, workloads and work schedules and job security could all be affected by privatisation. Negative effects could include layoffs, reduced salaries, extra training requirements, etc. Positive effects could include attracting more employees, increased salaries and training, development of employee skills, etc.

#### **Is restructuring of the employment system prior to privatisation necessary?**

Before implementation of their privatisation programme, some countries applied different restructuring on the employee base. Restructuring the workforce allows the government to implement different alternatives, some of which help the employees to create different solutions to participation in the process. One of the major decisions that should be taken by the decision-makers and planners of the programme in Saudi Arabia before implementation is an investigation into the need for restructuring of the employee system, their relationship with privatisation, the system of employment in the public entities and ways

restructuring can be implemented. This section will study this matter to see if the employment system in different enterprises needs restructuring or not.

Implementing restructuring has negative impact on the employees as described by Johnson et al. (2000): “A major concern about privatisation is the restructuring of the employment system, which means reducing the number of the labour force and increasing the number of those unemployed. Privatisation is both affected by and has an effect on the labour force,”.

Birdsall and Nellis, (2003) emphasised the neediness of restructuring on under-performing enterprises: “Privatisation will either result in restructuring or the sale of PEs, which will in both cases mean reduction in the workforce and in many cases a change in the employment and management system. Proponents of privatisation suggest that poor past performance in the public firms requires a period of restructuring resulting in cuts in employment, part of which might occur before the actual sale,”.

The Privatisation Strategy mentioned that “...there are several methods for dealing with the workforce in the privatisation process, some of which are: employee participation in ownership of the enterprise (which could induce them to support restructuring and privatisation); obtaining a commitment from the investors to retain current employment.” Husain’s study on Saudia airlines employees recommended, in the SOEs, that where there is overstaffing, restructuring the labour force should be done before privatisation. If there is no overstaffing the restructuring should be left to the new investor [85]. The previous studies on the PEs in Saudi Arabia indicated that most of them have redundant employees. Hence the researcher took from this that there is a necessity of workforce restructuring in most of the enterprise employees in Saudi Arabia.

The implementation of the restructuring needs the cooperation and supports various of organizations such as the SEC, PC and the targeted PEs. The purpose of the coordination is to produce a good plan for implementation the restructuring; this allows for them to create various businesses in the enterprise which will attract more employees and eliminate the need to release the old employees. Preparing the plan requires assigning this task to more professional and qualified



employees to improve implementation of the process and reduce employee resistance.

There are other governmental organizations that should participate in the process, such as HRDF, Ministry of Labour, Civil Service, Economy and Planning, Commerce, Finance and Chambers of Commerce. Each organization has specific tasks, such as coordination between Ministry of Labour and Chambers of Commerce to check the job availability in the private sector, what type of jobs are available and the HRDF to prepare and support the employees by providing different training programmes, etc.

The role of the Ministry of Economy and Planning is very necessary at this stage to coordinate with other Ministries (e.g. Labour and Civil Service and Finance) on the job vacancies for every year in different organizations. This allows for the Ministry of Labour and Civil Service to assign some of the redundant employees to them and the Ministry of Finance to plan the financial resources and provide salaries for them.

#### **Case study: Saudi Arabian Airlines (Saudia)**

The privatisation success depended mainly on the employees' participation in the programme. Labour restructuring is one of the operations that can be implemented on the PEs employees before proceeding with privatisation. The main reason for restructuring of the enterprise and the employment system are to absorb the redundant employees by creating new jobs and presenting various options to help them in improving their skills, and searching for new employees. This method helps in avoiding the dangers of privatisation and harming the employees by presenting to them many options of the employment system.

The researcher found that Saudia is one of the PEs which recently tried to implement privatisation and restructuring of the workforce without any success see Appendix C. He took Saudia as a case study to analyse enterprise procedures in the implementation of privatisation. This allowed him to figure out if the same factor could hinder the implementation of privatisation in other enterprises. Given the extensive area of the Kingdom, air transport is of immense importance. Attempts are being made to increase competition in this sector and studies are being conducted to privatize the Saudi Arabian Airlines Corporation (Saudia),

which currently transports 50% of the passengers to and from the Kingdom (Ministry of Economy, 2000) [152].

Saudia did not implement the privatisation programme and did not take any forward step in privatizing the company since 1994. This allows the researcher to investigate the company, study the effect of the management and employees on the PEs and how they delayed and resisted implementation of the process. The next section gives a brief history of the development of the company.

### **Steps to consider in implementation of the privatisation on employees**

Employee matters are one of the major factors affecting implementation of privatisation. They have to consider different matters in implementation of the process. Implementation of privatisation on the employees should consider deploying various steps to smooth the process. Some countries considered this factor seriously, which helped them in dealing with different matters related to the employees. Other countries failed to consider the employees opinions in their programme, leading to employee opposition and resistance groups. The researcher has listed these steps which will help the Saudi Government in dealing with the existing enterprises employees which will help in implementation of the privatisation on Saudia or other PEs. The following points are useful, but not necessary to be implemented in sequence:

#### **Establishing a central office for redundant employees**

Saudi Government experience in this field is very low and needs a lot of effort and more qualified employees in human resources management. Saudia has a huge number of redundant employees which could affect privatisation of the enterprise or affects the employees. The Government could establish a central office or department to look after redundant labour matters in different enterprises; it could be used as a coordination point between the Ministry of Labour, Civil Service, the enterprise and the PC.

The aim of this office would be to develop studies to solve the redundant labour problems with their employers as a government or a private agency. The privatisation programme in Saudi Arabia is still in its early stages so that requires different Governmental organizations to prepare further studies. All these efforts



should result in developing and preparing good studies by professional organization which cover most of the employee matters with regard to privatisation.

This office would offer an opportunity for various government organizations handling employing and recruiting (e.g. Ministry of Labour) to be aware of the direction of the labour market. At the same time it would allow other organizations to concentrate on the market needs and types of education that should be available; for example, the Ministry of Education and Higher Education. The education system should consider this and apply some changes to follow market requirements. This office needs full coordination and planning between all the concerned departments (Ministry of Labour, Civil Services, HRDF and the PC, General Organization for Social Insurance and representatives of the private sector. The structure of this organization could include a department for developing and training the redundant labour force.

The office could handle the following: Estimating the size of the redundant labour in PEs, distribution and departments; Protecting the national work forces legally, socially and financially; Providing information about types of qualifications, education and training; Preparing different training programmes; Preparing further studies to deal with the redundant labour force; Developing different schemes to allow the redundant employees to select the most appropriate one; Representing the employees in various affairs.

### **Developing the labour market information networks**

The market lacks such information networks about the employees; by establishing this office they could assign this task to them. The central office for the redundant employees, HRDF, Ministry of Labour and Civil Service could work on this proposal. The information network can be available to the investors, Government and to the labour force, which would affect positively the labour market. Through an active public employment service, prospective employers may obtain important information and services as follows:

- Up-to-date lists of jobs available in the market.
- Aptitude and performance tests and referrals, placement services, etc.
- List of the job seekers in the country.

- List of the redundant employees in different enterprises.

In a well-functioning labour market, these activities supplement the information provided by other formal methods of job or employee search, such as private employment agencies, newspaper advertisements, and placement services at educational institutions. This option will help in the following ways:

- Save the government and employees time and money.
- Quickly finding suitable jobs opportunities in different organizations.

#### ***Assigning implementation of workforce restructuring to advisors***

Assigning professional advisors to handle the restructuring could help in reducing the employees' resistance, because their acceptance is very important in the process, as mentioned by several authors such as Wilson (1992) and Nadler (1993): "Implementation of the restructuring is very necessary in a company that has a huge number of redundant employees. Acceptance of change by the employees is not always guaranteed but most changes in organizations normally create anxiety and might lead to insecurity, thus creating resistance to the new policies,".

Flushing and Kruegere (1995) and Johnson et al. (2000) also comment on this aspect: "Desirability and acceptance of the privatisation policy on the part of managers is indeed essential for the smooth implementation and feasibility of different programmes,". According to Kanter (1983) this means employee attitudes have a direct influence on the implementation process. This agrees with the views of different authors who emphasize the importance of the role of managers in implementing change.

The Privatisation Strategy, assigns the responsibilities of managing and implementing the programme to the concerned government agency under the supervision of the PC. Implementation of the programme entails preparing a plan and studying the employment conditions in the enterprise. This plan should include methods of dealing with the employees, management structure and the advantages and disadvantages of each method. This allows for each enterprise to prepare a clear plan dealing with different matters related to the employees' conditions in the enterprise and studying their requirements.



In order for the management team to perform these processes professionally, this task requires knowledge in different fields, e.g. human resources and the types of incentive that could be presented to the employees. The strategy assigned the implementation to the employees of the enterprises as mentioned above, but they lack sufficient knowledge and experience of the process. If there is a commitment to solve this problem they could attract new experts to handle this task. The enterprise could offer them incentives to develop and improve implementation of privatisation with employees through cooperation with the employees. This would increase their participation in the process effectively.

However, they could also assign this task to one of the advisors, who are more professional and experienced in this field; this would help in producing complete and high quality studies covering all the matters related to the process. Alternatively this task could be assigned to the office mentioned in section 6.12.1. The programme should deal with all affected employees sensitively and discuss all the matters relating to implementation of the privatisation on the workforce. This process could give the employees some information and briefing about the advantages and disadvantages of the process and the potential benefits for the employees.

Producing this document with full information requires the enterprise to assign a qualified management team with proper qualifications related to privatisation. The purpose of assigning a management team on this process is to increase the coordination between the office, advisor and the enterprise employees, and providing the requested information. The understanding of the management team should improve, which would help in speeding up implementation of the programme.

The Government could hire an advisor to provide a variety of training programmes for all the enterprise employees who lack knowledge about privatisation or the incentives that could be presented. They should prepare clear and understandable procedures for the employees, which should include methods on how to manage the change, the types of benefit that could be provided and the types of scheme that could be presented to them.

This emphasises the role of the management team in implementation of the change in the organization, and is in agreement with the researcher's opinions when selecting and questioning the managers in the public and private sector. Also, they are more involved with the various problems in these sectors. The researcher found that all these factors are necessary when studying the attitudes and views of managers regarding the assigning of implementation tasks of the programme to enterprise employees.

### ***Presenting various schemes to the employees***

Employees in developed and developing countries are worried about PPP, especially unskilled or less-educated employees, because they are more likely to be exposed to job losses or reduced wages and salaries. There are other effects that could make them afraid of participation in the programme, such as increased scope of the work, elimination of a variety of benefits, etc. Some countries have presented to their enterprise employees a variety of procedures as incentives to increase their participation in the programme and eliminate opposition, such as: preparing a law to protect the employees; offering some schemes and incentives.

These countries applied the above methods to protect the affected employees; this could be helpful to the enterprise in reducing opposition to implementation of the programme. It would make the employees feel more secure about their jobs and careers if they continue to work for the company or transfer to other public agencies, or if they select another option to suit their requirements. Otherwise, the labour force could constitute a serious force of resistance. The enterprise could be affected if more experienced employees left the company and they were left with the less qualified employees.

Presenting various schemes to the employees would help the company in implementation of restructuring; it would allow the company to settle its employees gradually, in different positions in the enterprises, with suitable wages. In the beginning of the restructuring process the company should prepare a plan containing different options to be presented to the employees, along with the advantages and disadvantages of these options, methods of dealing with the effects, etc. The study should explain to the employees about these incentives in terms of: types of incentive and methods of implementation.



These incentives or schemes could be prepared and implemented by the local advisor or foreign advisors. The company should present multiple options and not limit their employees' options, as this could result in high employee retention. Implementation of the restructuring on the employment system should not affect the performance, productivity and efficiency of the employees, as this could negatively affect the company's future plans. In this section, the researcher discussed some schemes that could be presented to employees of Saudia Airlines or other enterprises. These schemes could be used as incentives to deal with the redundant labour as follows:

- **Training and retraining scheme**

Saudia Airlines has a huge number of employees, most of them equipped administrative jobs and lacking the vocational training and implementation of this scheme could help them in improving their skills in performing technically or administrative works. Developing a training/retraining programme of the company employees is one way to improve the productivity and increase the efficiency and performance of the company. Most private companies arrange the training programmes from the first day the employee joins the company. Planning and managing these programmes should be prepared professionally to be useful for every employee.

Training and retraining schemes were used by STC for its new and old employees. STC realized that such programmes keep them strong and stable in the market. All the training/retraining programmes were prepared by the STC, internally and externally, under its own control and supervision, and other programmes were prepared by local and international companies [166]. The training option was offered because most companies preferred to train the new or recent employees — retraining of old employees was used on a limited basis because it was more expensive than providing a training programme for new employees.

STC planned and implemented the training programmes for its new employees, and that was helpful in improving the employees' productivity and performance. STC prepared its training programmes through different contracts, with the Ericsson Company, for example. Retraining was needed for the old and redundant labour force and for some of the employees transferred from their old departments

to new ones. Such retraining needs more emphasis on specific programmes from which the employees could benefit.

Redundant employees will develop and learn new methods and technologies to upgrade their present performance and productivity. This option improves the employees' skills and makes them more active and useful in their work place. To get good benefits and effect from such programmes it should be planned and coordinated with the prospective employers, especially in the case of restructuring the workforce. As mentioned previously, applying this scheme in Saudi Arabia has different constraints because of the scarcity of training facilities in the country; otherwise, the enterprise could provide its own programmes internally.

Most of the training services, institutions, colleges or universities are still managed and operated by the public sector and that is characterized by low resources and isolation from the real market needs. In addition, there are limited incentives from the Government for the private sector to invest in training or higher education business; the procedure for applying for a governmental loan can take a long time. The Government can support the private sector financially, technically and operationally in establishing various training institutions and programmes.

▪ **Buyout of the employees' services with cash compensation**

This scheme is the second and last one presented by the STC to the old employees in PTT. It is the easiest and most straightforward method, offering cash compensation to the employees to allow them to start their own business after they have spent 20 years or more in the company. It was the most attractive and most popular to have been used with STC employees. When the STC offered this choice, the employees chose voluntary retirement, plus their pensions. It was offered to 2500 employees; many of them would start their own businesses in the same field with the experience they had, or another business.

In designing such a scheme, it is essential to take into consideration the age, payment level (salary) and number of service years. It is necessary to offer the retired employees enough compensation to establish their own business and to cover their own living expenses for their family. This scheme was very effective



in encouraging the old employees in the STC or other enterprises to retire early and allow for the company to attract new graduates.

- **Offering shares**

This scheme allows the employees to buy shares at reduced prices and easy credit terms, changing them from workers to owners. This option was used by SADAF (one of SABIC companies). It has a major advantage of maintaining a strong link between the company and the employees during their work or after retirement. It could be used as an alternative or as a complementary procedure to cash severance payment. This option allows the company to reduce the amount of cash that must be paid to the retired employee.

It could serve as one of the privatisation objectives for broadening the ownership base. This helps the company to succeed in its plans because each employee will care about his shares and therefore will cooperate towards this success. For employees in privatized companies, this strategy of share-owning democracy has been used to boost their morale, increase their efficiency and productivity and win their loyalty to the company. His ownership of shares and his stake in a capitalist enterprise are bound to have a positive influence on him [173]. When a worker sees himself as an owner he is more likely to take care of the property and increases his productivity and efficiency.

- **Finding other employment**

The aim of this scheme is to find new employment for the redundant or unskilled labour force. This method is targeted at the younger employees who need to find another job in other public organization. For such a method to be more effective it needs to have full information about the employee's qualifications, needs and his capabilities for effective matching. Real job opportunities also have to be developed.

This scheme was implemented in the Petromin Company (one of the Government petroleum companies in Saudi Arabia). The Government decided to shift Petromin business to the Saudi Aramco Company; the enterprise gave the redundant employees the choice to transfer to another public organization. Previously, the public sector was capable of absorbing the increasing labour force.

One major constraint on this scheme is the limited number of vacancies available in the public sector or its enterprises. They will find difficulty in employing huge numbers of redundant employees in the public sector; also, there are waiting lists of unemployed people as the unemployment statistics above showed. This again underlines the importance of creating more real jobs in the job market.

- **Government early retirement scheme**

Most of the developed and developing countries have labour laws that allow employees to retire at the age of 60, which is the only case in which they could receive a full pension. If the employee stays in work until the age of 60, he/she is entitled to the full pension calculated as a function of the last basic salary added to its variable components (special allowances, bonuses and incentives).

This scheme allows employees to retire early, from the age of 45, provided that they have served a minimum of 20 years in the Government. Employees serving less than 20 years receive a reduced pension. This scheme could be modified and presented to encourage early retirement, allowing all employees to receive full benefits, or at least 80% of them, if they are willing to take the early retirement option. The Government could present part or full benefits, or free shares in the company after agreement with the employees.

- **Linking the employees' work with the productivity**

This scheme is suitable for employees with low productivity and willing to stay in the company. It links their real productivity with renewing their contract or staying in the company. This scheme would allow the employees and the Government to gain various benefits, such as: Increasing the competition between employees; Helping them to be more productive; Improving and developing their skills; Orientating them to be more creative; Allowing them to work harder and increasing income and; Increasing the company productivity and efficiency.

This scheme would offer more benefits for employees who are looking to improve their income, productivity and creativity. It could be an incentive for the unskilled employees to keep their position, increase their training, resulting in higher productivity and professionalism.



▪ **Linking the incentives and bonuses to productivity**

Redundant and unproductive staff could be kept on the basis of linking their bonuses and incentives with their productivity. Applying this option could work as follows:

- Listing all the employees who are interested in this scheme.
- Explaining to them the content of this option and how it could be applied.
- Taking their approval to proceed in this scheme.
- Applying annual evaluation for each of the employees joining the scheme.

This scheme is linked with incentives and bonuses to the real performance with employees' salaries. Their bonuses could be paid monthly or as a package on an annual basis. This should be agreed before proceeding in the process. The employees could get the same benefits as the previous scheme. Applying this scheme and the previous one help the Government in reducing redundant employees in the enterprises, minimize the social, financial, problems of the employees.

▪ **Giving long-term unpaid holidays**

This scheme allows some of the workers to seek alternative employment and to overcome the fear of leaving a secure Government job. Once the employee finds a new job, in the private or the public sector or as a self-employed person, he/she could resign. This option needs study of the best implementation method to avoid duplication in the staff roles. Some of the Government provisions for the older employees in the different enterprises can be transferred to other public enterprises, but some of the employees may not accept this offer, so they could offer them such an option, applying some conditions if necessary.

▪ **Providing soft loans to the employees**

The loan could be provided through establishing a fund for this purpose and all interested redundant employees could apply for the loan. This option needs preparation of an implementation methodology and detailing how they benefit from this fund. This loan could not be in the form of cash, but it could come in different methods, such as supporting the employees who were willing to start their own business technically. The employee should submit their proposal for this type of business and the plan for running it. The Government should make

sure that if the employee gets cash the money should be utilized professionally and take the warranty for returning the loan. The Government could deduct from the employees pension to pay the loan.

In conclusion, the researcher provides these options or schemes which would allow the Government to utilize them wholly or partly in different ways. The aim in providing these options is to attract the redundant employees and allow them to obtain different benefits as follows:

- Increasing their income, bonuses and incentives, this will improve the social and financial conditions of the employees. It will increase the competition between them which will affect positively on their productivity.
- Helping them to be more productive and more professional in different fields.
- Improving their skills and orientating them to be more creative employees.
- These schemes provide different alternatives for them to choose from.

Using these options needs assigning of a qualified team to produce a good study and investigating what types of scheme could be presented. The team should study methods of implementation, the types of employee who could use them and issuing a law to protect them from the dangers of privatisation. The team should deal with this problem sensitively and transparently.

### **The legal constraints on applying these schemes**

The existing Labour Law is very old; it was first drawn up 30 years ago, and it did not mention methods for reducing or restructuring the labour force or the types of compensation that could be presented to the employees. The Privatisation Strategy stated that the employees must clearly understand the method of dealing with the manpower aspect in the process and its impact on them.

If a company wants to implement some changes, downsizing or restructuring in the labour force, the process needs long procedures because it involves the highest level of ministerial council; also, involving these organizations may cause delay and that could hinder the implementation of privatisation. This makes restructuring the labour force in Saudi Arabia extremely difficult, requiring lengthy procedures, unless they implement some changes in the old labour law and state methods or ways of restructuring the workforce.



The Ministry of Labour is preparing some changes in the old Labour Law; these changes will modify the old law but not deal with matters such as reducing and restructuring the employee system, re-employing and downsizing the labour force. Also the HRDF did not deal with all these matters; its task concentrated mainly on preparing training programmes for the new entrants to the market.

Preparing guidelines for privatisation strategy can be helpful in smoothing matters related to the employees during implementation of the process. These could be used as guidance in implementation of the downsizing and restructuring of the employee system. Also, the strategy mentioned the necessity of employee participation in the process and the compensation that could be offered to the employees. There are different constraints in applying restructuring of the employee system, as follows:

- The privatisation policy is a new concept in most developing countries. Saudi Arabia is one of these countries which have limited experience in this field. It does not have enough experience to manage the changes in employee structures.
- The country is under development and most of the structural adjustments and reform procedures, such as investment and company law, are on-going; it is trying to apply different techniques to attract foreign investment, especially since joining the World Trade Organization in late 2005.
- Most of the economic activities were under Government control and there is no organized labour union to deal with different employee matters.
- With introducing privatisation in the PEs, the Government will suffer from overstaffing in most of the enterprises.
- As mentioned previously, the Privatisation Strategy or the Labour Law did not mention the procedures of implementing workforce restructuring, and they did not give enough thought to employee matters in implementation of the privatisation.
- Since establishing the Labour Law, the Ministry of Labour has not implemented any changes and has not mentioned any labour restructuring. The Government can develop the old law and adopt some of the matters related to implementation of the privatisation, restructuring, re-employment, etc. It could provide different incentives schemes for them to protect them from the dangers of privatisation.

## **Steps towards implementation of those schemes**

The success of these schemes requires preliminary steps such as:

### **Developing the existing labour law**

The Labour Law lacked information regarding redundant employees and methods of restructuring. Developing the law will help in including the following: Studying all the matters or items related to redundant employees in an enterprise; Studying the existing Labour Law leads to suggesting what types of changes or modification could be added to make it workable within a privatisation programme; Developing the law should be prepared according to the market requirements; Mention different types of incentives or schemes that could be offered to employees; Methods and procedures of implementation of these schemes and; Adopting some items about restructuring of the employee system.

This law gives the qualified employees incentives to participate in the process. Developing the existing Labour Law would change most of the old rules, and the Government could allow the private sector to be part of the team during updating of the labour law. This allows for the Government to hear private sector opinions and understand their problems with the employees. The new law should allow for the competition between employees to obtain the most suitable and qualified one and should cover all employee rights and compensation.

Managing this process needs assigning of this task to a professional team with enough knowledge and experience in privatisation and human resources management. It is very important for the employees to participate in the process to give their opinions. Dealing with the workforce in the process necessitates including several points in the new law, such as:

- Emphasising the employees' participation in ownership of the enterprise, this will encourage them to support the restructuring and privatisation. This keeps long-term investment for the employees.
- Providing fair compensation for the employees who retire voluntarily or whose contracts are terminated.
- Obtaining a commitment from the investor to retain current employment.
- Training and upgrading the qualifications of employees.
- Providing various of schemes to protect the employees



### **Offering incentives to the private sector to attract old employees**

The Government should work effectively in this matter and take its role seriously. It needs to prepare different studies which will help in reducing the number of redundant and unemployed people in the national workforce. Their role is not limited to attracting employees to the public sector; they could also present some incentives to the private sector to employ some of the redundant workforce.

The researcher mentioned this factor for the following reasons: working with the private sector since the employment in the public sector will no longer be dominant; the private sector has more vacancies than the public sector and has the capability to attract and produce more jobs; the private sector has higher innovation than the Government which allows them to create more jobs; the private sector has experiences with national employees through implementation of the Saudization programme, which could help them to deal with this matter effectively.

In addition, the public and private sectors could work together in producing similar programmes that would help in attracting more employees in different fields; the Government has the financial and technical capability to support the private sector in attracting the redundant and the unemployed, while the private sector has a variety of jobs in different fields so it can offer different jobs. Also, cooperation between the public and private sector is essential for stabilizing the country economically, and socially. This factor can be attained by:

- The Government paying part of the expenses and wages of the employees.
- Establishing an active Governmental fund to support the training programme and educating the redundant and unemployed.
- Providing free training for employees at home and abroad.
- Providing financial, technical and other support for the private sector projects, helping to attract more human resources employees.
- Developing and supporting the recruitment offices in attracting the qualified national human resources.

### **Involving the private sector in providing higher education**

The government can encourage the private sector in developing and providing higher education and training facilities by:

- Allowing them to participate in higher education and vocational training.
- Providing long-term loans with minimum interest.
- Providing several types of support could help in implementation of this factor.
- Encouraging them to utilize existing public training centres by offering them with reasonable rents, providing modern technology, etc.
- Encouraging the private sector to attract the public sector to these facilities.
- Upgrading the old training facilities and providing more advanced technology.

All these factors or incentives will be helpful for the private sector to participate in providing higher education and training as well as establishing new facilities. This does not limit the private sector to participating in higher education: it could also participate in different levels of education, and in different areas, such as vocational, management, etc.

Participation of the private sector will introduce competition between the Government and the private sector. The private sector is looking for benefits in providing good quality of education geared to market needs, so it has the capability to provide diverse modern training programmes and new facilities. The private sector can upgrade different types of facilities and education programmes by introducing new subjects and modern technology in teaching.

### **Case study: Saudi Arabian Airlines (Saudia)**

#### **Introduction**

The privatisation success depended mainly on the employees' participation in the programme. Labour restructuring is one of the operations that can be implemented on the PEs employees before proceeding with privatisation. The main reason for restructuring of the enterprise and the employment system are to absorb the redundant employees by creating new jobs and presenting various options to help them in improving their skills, and searching for new employees. This method helps in avoiding the dangers of privatisation and harming the employees by presenting to them many options of the employment system.

The researcher found that Saudia is one of the PEs which recently tried to implement privatisation and restructuring of the workforce without any success.



He took Saudia as a case study to analyse enterprise procedures in the implementation of privatisation. This allowed him to figure out if the same factor could hinder the implementation of privatisation in other enterprises. Given the extensive area of the Kingdom, air transport is of immense importance. Attempts are being made to increase competition in this sector and studies are being conducted to privatize the Saudi Arabian Airlines Corporation (Saudia), which currently transports 50% of the passengers to and from the Kingdom (Ministry of Economy, 2000) [152].

Saudia did not implement the privatisation programme and did not take any forward step in privatizing the company since 1994. This allows the researcher to investigate the company, study the effect of the management and employees on the PEs and how they delayed and resisted implementation of the process. The next section gives a brief history of the development of the company.

### **History of the development of the company**

The researcher summarized the long history of Saudia in this section to help illustrate the company's failure to utilize the financial, technical and operational support from the Government over this period. It dates back to 14<sup>th</sup> February 1945, when President Roosevelt gave King Abdulaziz a gift of a Douglas DC-3 Dakota; It was used on routes between Riyadh, Jeddah and Dhahran and carried both passengers and cargo; two more DC-3s were purchased within months. In 1946 Saudia was set up and operated as an agency of the Ministry of Defence. They established and operated the first airport in Jeddah to service Hajj pilgrims.

On 19<sup>th</sup> February 1963 Saudia was established as a corporation: according to Royal Decree No. 45, the airline became an autonomous entity run by a Board of Directors and chaired by the Minister of Defence and Aviation. The Company joined the International Air Transport Association (IATA) on 17<sup>th</sup> April 1967. They adopted new livery and took the name Saudia, and by 1972 were flying to 49 destinations on three continents. In the same year, the airline received the first five 737-200s which replaced its old DC-9s, Convair 340s and DC-3s, and linked their services to 20 domestic cities.

In 1973 the Company carried one million scheduled passengers annually, and by 1983 they carried 11.4 million. In 1981 the Saudia Catering Service was

established, and in October 1984 they received and put into operation eleven Airbus A300-600s. In 1995 they ordered 61 new aircraft from Boeing; on the catering side Saudia produced a record 13.5 million meals for themselves and 50 other international airlines in 2000. In 2004 the company celebrated a new record, carrying over fifteen million passengers in one year.

On 3<sup>rd</sup> January 2006 the company launched the first two aircraft of a new fleet, a total of fifteen new Embraer 170 aircraft in a \$400 million self-financed deal. The company currently employs more than 24,000 people and has routes linking 26 cities across the country, also connecting 56 of the world's major cities and flying 13 cargo routes. Saudia's profits doubled between 2002 and 2004, reaching a 2005 high of \$133 million. Passenger numbers have risen by an average 1 million per year throughout the last few years [154].

Studying the development of the Saudia Airlines shows the company has various investment opportunities for the participation of investors in different services. The researcher classifies the company partnership with investors as being in the following areas:

- Developing the aviation service.
- Developing marketing in the company.
- Providing new catering services and expanding the old facilities.
- Establishing training facilities and providing various training programmes.
- Providing the maintenance and constructing new facilities.

### **Development of the aviation market in Saudi Arabia**

The country has a network of air transportation comprising 25 airports, of which 3 are international airports. The Government has to develop the airport sector because of the long distances between major population centres and the harsh terrain. The total number of passengers arriving and departing from all airports reached 36 million in 2005, as shown in Table 12.5.6 [155].

This table emphasises that the Saudi market is large and rapidly expanding for the aviation sector. This could be one of the incentives for investor participation in the sector. The Government should speed up liberalization of the company and the sector which would increase the competition between Saudia and other private



companies. They could attract advanced technology, new management teams, low prices with good quality and high financial resources, upgrading airports, etc.

Table 11.5.6 Total Number of Passengers handled at the Kingdom's Airports (millions) 1970-2005 [155].

Description	Years								
	1970	1974	1979	1984	1989	1994	1999	2004	2005
Departing	0.80	1.70	6.40	11.90	10.10	13.00	14.30	16.00	18.00
Arriving	0.80	1.90	7.20	12.20	10.20	13.00	14.40	16.50	18.00

Table: 11.5.7 Total Number of Passengers handled by Saudia (millions) 1970-2005 [155].

Years	1970	1974	1979	1984	1989	1994	1999	2000	2005
Total Passengers	0.60	1.30	8.0	11.60	10.30	12.50	12.70	16.30	17.40

The above table indicates Saudia Airlines handled 17.40 million passengers in 2005, showing the company has a huge market locally and regionally. Saudi Arabia attracts a large number of visitors and pilgrims each year, and the country has more than six million foreigner workers from different countries. The country monopolized all the local airports, which allows them to transport this huge number of passengers. With the full technical and financial Government support from 1945 up to now, the company did not make enough revenue to keep the Government satisfied.

The main source of the problem was the company's failure to utilize all the available resources professionally, which created a negative impact on various businesses of the company internally. Moreover, regionally most of the countries open their airways for competition; this brought the company into competition with various airlines, causing them huge investment losses in the aviation market. This had a large impact on the financial and technical of the company and thus on the economy of the country.

This does not mean the company lost investment in the aviation sector only but there was huge loss of investment in various services such as catering, training, cargo, ground services, etc. Recently the Government has placed special emphasis on the tourism sector after establishing the Supreme Commission for Tourism (SCT) to promote the tourism sector. Its duties, among others, include the evaluation of tourist-related infrastructure and putting forward the necessary programme for its development. As such the development and expansion of airports will be necessary in order to help tourism flourish in the country. All the airports will require huge capital investments to upgrade their ground services, technology, facilities, so this is one of the sectors that could be affected.

The Saudi Government developed the aviation sector as this Meed paper confirmed: “They financed development of Saudia airlines and airports projects. However, currently the government is planning to turning to the private sector in this area. They plan to transfer Saudia to private ownership and develop and expand the airports. The government is seriously considering using different privatisation methods (e.g. BOT, BOO, etc.),”[132].

The above tables indicate the volume of investment available in aviation and in the airports is huge, and in order to encourage investment in tourism, which is a Government priority, expansion and upgrading of the airport facilities and liberalization of Saudia and the aviation market is critical. Private participation in this type of investment can play a major role in financing different projects for Saudia and the airports’ development.

The main goal of those contracts should concentrate on attracting new and more advanced technology, bringing new financial resources and investment to the country, developing the old facilities and technology, providing training to the employees and building new airport projects. The private sector would play a major role in developing the company, bringing new aviation companies and expanding, operating, maintaining and rehabilitation, the existing airports. Also financing new projects for the aviation market and the airports: all this depends on how they could utilize the private money in this area.



### **Process of implementing the privatisation programme on Saudia**

The aim of this section is to get a full perspective on role of the management in implementing the change and how they could resist this type of change. The Government planned the privatisation of Saudia for a long time, as Cordesman (2002) confirmed: “The King (the highest authority) first advanced the idea of privatizing Saudia in 1994. Since that time the company has been slowly restructured to make it more viable as a commercial entity; in September 1999 Saudia’s board gave instructions to form a committee to obtain the consulting services necessary for a detailed privatisation plan,”.

In August 1997 the Government decided to take more than twenty-three sectors and services into privatisation, one of them being Saudia, and in May 2000 Saudia invited investment banks to prepare bids for privatisation. These studies are still in progress, but the goal is to float Saudia on the stock market for public subscription [132]. This means the idea of privatisation started in 1994; the Government emphasised privatisation of the company in 1997 when they included it as one of the targeted companies for privatisation. Some studies were commissioned in 2000 to prepare Saudia for privatisation; up to now the company is still owned and managed by the public sector without any further action.

On 10<sup>th</sup> August 2000 the Chairman of the Board of Directors of Saudia signed contracts with a number of specialized companies and financial and legal consultants concerning the programme for privatisation of the airline. He stated that privatisation was taken as a strategic option in order to utilize the capabilities of its employees and to highlight their innovations and skills, pointing out: “After completion of the study the contracts for which have been signed today, we will present to our citizens a large and successful facility that will promise greater success for investment and that will be operated as a profitable private company providing distinguished service, giving returns to its stockholders and operated on a strictly economic basis,”[156].

The literature review indicated that all of the decision-makers (the King, Deputy of the King and Chairman of the Board of Directors of Saudia) in the country emphasised the privatisation of the national carrier, but there is resistance from the management of the company for implementing the process. The Director-

General of Saudia, announced on 2<sup>nd</sup> December 2004 that plans for privatisation of Saudia had been completed, and that a feasibility study of the project will soon be presented to the Council of Ministers [157].

On 6<sup>th</sup> June 2006 the Saudi Government announced by royal decree they were replacing The Director-General of Saudia Airlines with a new manager from the private sector, On 30<sup>th</sup> August 2006 The new Director-General of Saudia stated the privatisation process was moving ahead in Saudia in four sectors: ground support, catering, cargo and maintenance [158]. The Director General of Saudia made the following points to the Khaleej Times in September 2006:

- First, Saudia's strategic privatisation plan incorporates five subsidiary companies with stocks open for public investment. The five subsidiaries include the catering, cargo, ground support services, maintenance and training units. The plan will take about 18 months to reach completion.
- Second, there are four stages to be followed. The airline is now in the third of the four stages — choosing consultants, preparing studies, restructuring of non-core businesses to become profitable units, to be part of the mother company, and privatizing the mother company by determining the percentage of shares for floatation and completing procedures for the initial public offering (IPO). Each unit will be a separate company under the umbrella of the mother company, whose privatisation has already been announced.
- The marketing campaign will then begin to attract investors and international partners for the catering unit from August this year; the business will be ready for privatisation by November.
- For cargo, the marketing will begin next month for privatisation in February 2007, followed by ground support services (to be ready by March 2007) and maintenance and training (May 2007).
- The airline will be privatised in the first quarter of 2008.
- The new plan will help in attracting more businessmen as well as training the workforce, which will increase after the privatisation. He then contradicted the first statement, saying "Saudia may manage without a large number of present employees, many of whom have no specific assignments,"[159].

After the long-awaited privatisation, Saudia invited bidders for a stake of up to 49 percent in the catering services. It is expected that the catering business will



undergo restructuring to become the new catering company, a new firm under the helm of Saudia. They expected the investors will receive a role in the new company's management and should bring some expertise in the catering business, including in the area of on-board duty free sales, which generated a turnover of 643million Saudi Riyals (1\$=3.75SR) [160].

The long-pending privatisation of Saudia received a decision from the Council of Ministers when they gave the national carrier the go-ahead to convert its strategic units into companies. "The Council of Ministers decided to allow the General Organization for Saudia to transform strategic units in sectors targeted for privatisation into companies,"[161]. There were strong instructions from the highest authority in the country for privatizing the company, but the first quarter of 2008 finished and Saudia was still owned and managed by the public sector and had not yet implemented privatisation in any of their services.

### **Source of the problem**

Trivedi specified some of the company's problems:

They failed to make a profit in any year since 1984. Its finances are precarious, it is technically bankrupt and it has no further borrowing capacity. The balance sheet shows a large negative net worth of \$987 million and current liabilities exceed current assets by \$2.11 billion. Saudia utilises much less of its capacity to carry passengers, and cargo than benchmark airlines; its aircraft utilisation is well below industry standards. Similarly, available data suggest that Saudia is overstaffed by 20% [102].

However, some studies indicate that there is overstaffing in the Saudi labour force; for example, Al-Bazia's study stated comparing Saudia with 12 other international airlines found Saudia has a huge labour force and very low income, indicating very low labour productivity and performance, while it has the lowest crew size compared with the other companies [83]. Also Privatisation Strategy, showed the problem of excess labour beyond the requirements of enterprises that are targeted for privatisation. The Director of Saudia stated the company has more employees than they require.

The company employed more than 24,000 employees in various fields. This huge number of employees increased the bureaucracy at different levels, making it more difficult for customers to benefit from various of services in the company. Husain's study investigated the opinions of 575 employees of Saudia. The study

result indicated that the Saudia employees were worried about implementation of the privatisation, especially those working in administration jobs, of which there was a large number.

However these efforts were not appreciated by the company management and they did not take the Government decisions seriously. Instead of implementing the programme, both the management and employees formed opposition groups. This delayed privatisation of the company from 1994 to the first quarter of 2008, and no one knows how the process will go forward from here. Management of Saudia did not realize the Government's prime objective of establishing the company, and instead of making it more profitable, exposed it every year to losses, large waiting lists of passengers in local and international airports, low quality of services, poor performance, etc. The company did not consider the requirements of customers, and this lack of quality in the service could drive customers away, affecting the future of the company and their services if the Government opens the aviation market for investment.

The Saudi market has potential for investment in the aviation sector, especially as the Government opened various sectors for investment such as tourism and economic zones, which will attract foreign and local visitors to the country. The company has huge financial and technical support from the Government but this was not utilized professionally and this affected the company performance and productivity. Since Saudia was established in 1946, their revenues have reached 133 million SR (1\$=3.75SR) in 2005. The company owned a large organization: some posts did not have any specific tasks, as the Director of the company mentioned, and many employees were working in administrative positions, as Husian's study stated, which will increase the number of redundant employees after privatisation.

The senior management considered their own benefits in the company and that affected the performance and productivity of Saudia. They should consider the Government instructions to liberalize various businesses in the company and introducing some private sector techniques. They should consider the opinions of the customers and the feedback from them about the company services, and start taking their requirements seriously. This would allow the company to consider their image from the customer's point of view, and thus realize their strengths and



weaknesses and find remedies for them. Various services were not utilized professionally, especially as the local market was monopolized by them.

The researcher interpreted that the company has problems with mismanagement, which led to financial, operational and technical problems. All these studies and tables predicted that the Saudi market is growing fast in a short period of a time. This could be one of the incentives for the investors to participate in the sector and for the Government to open the sector and invite more investors and companies.

The researcher believes that these factors could cause the following:

- Shortage of providing good services will affect the company especially as Saudia is the only local company providing aviation services between different local cities. The Government plans liberalizing the aviation sector for investment and that will put the company in competition with other new companies because most of the customers are looking for the best service. The new companies will provide good quality aviation services to attract more customers and that will attract the old customers of Saudia, which will affect negatively the various businesses of the company.
- Poor quality and productivity will lead the company to lose huge investments locally and regionally, because all of these markets are now more open than before for investment in different sectors.
- The country is more open than before for investors and if there is shortage and poor quality in the air transportation sector this will affect the investment environment. This stresses that the Government should take quick action to liberalize Saudia Airlines and attract new companies to improve the aviation market and investment generally.

The employees' efforts did not only affect implementation of the process but the productivity and efficiency of the company in the following ways:

- Keeping the prices high compared with other airlines in the region.
- Keeping a huge number of passenger waiting lists.
- Lacking advanced technology.
- Keeping quality of the service low.

By investigating the above points the researcher found the following factors were affecting the company: Maintaining a large workforce (more than 24,000) some of them without specific tasks. This increases the company expenses and creates duplicate posts. Lowering productivity and quality of service; A shortage of employees on the technical side but a huge number in administration; Saudia completely monopolises the local market and so lacks any type of competition.; It lacks future vision and planning; The employees lack the technical training and some of the employees lack the required skills in performing their tasks; The company has shortages in managing various businesses, affecting different services and leading to losses;

Also, the company lacks knowledge in some fields (e.g. accounting, planning, marketing, etc.) because it is supported financially and technically by the Government; They have a shortage of private sector techniques in creating, innovation and new investment and; The company was paying huge wages and benefits to both the skilled and unskilled workforce. When the Government budget deficit increases Saudia and all the airports experience problems due to reduced government subsidies. Saudia had become out-dated because they did not develop and diversify their income resources, as they relied on the Government budget to finance various business arms. The researcher thought this was the main reason preventing them from developing the market and investing in these sectors.

In conclusion, the Government issued different decisions to privatize Saudia in order to keep them abreast of world developments and to be run commercially. The Government supported the management team of Saudia in hiring international consulting offices to produce various studies on methods of privatisation for the company. Saudia management had not taken the responsibility of obtaining and offering the best services to its customers to establish an image in line with the major role that the aviation service plays nowadays, and did not take all these studies seriously.

#### **Researcher's recommendation for Saudia Airlines**

- Saudia needs to study the employee situation in more detail and in a sensitive way. The previous literature indicated the company has a huge redundant workforce, so they should implement different types of restructuring that include the employees. This could create new business and jobs in the enterprise. The



company could apply workforce restructuring alongside other types, e.g. financial, technical and operational.

- They could hire one of the more experienced companies in this field, as STC did. This helped STC to develop the productivity and performance of all the systems in the company and speed up implementation of the privatisation.
- Providing enough training programmes for most of the employees, allowing them to benefit from this scheme. As an example, STC implemented training/retraining, and most of the old and new employees benefited. The training programme applied by a Swedish telecommunication company (Ericsson) was helpful in improving the employees' productivity. It was implemented successfully and upgraded the employees' skills technically and operationally.
- Implementing the retraining scheme on a huge number of employees developed the old employees' skills. This scheme was implemented by STC: the reason for this action was that the company had more than 5000 old employees who had transferred from the PTT. Transferring this huge number could affect the productivity and efficiency of the company, hence most of the private companies preferred to utilize new employees or attract new graduates instead of implementing a retraining scheme for senior or old employees, because they will have to pay higher salaries. Saudia could prepare such programmes for the employees who are working in administration positions, allowing them to transfer to technical jobs.
- In terms of the incentives, Saudia should present various schemes to the employees as mentioned above. STC presented their employees with two options which limited their selection. Offering the employees limited schemes could affect the company's performance, efficiency and productivity and keep the structure of the company with qualified and unqualified staff. This allows each employee to select the option which suits his needs; otherwise the company would maintain a huge number of employees, especially unskilled and low productivity labour.
- Loss of qualified and more experienced employees could affect the company's productivity, performance and future plans. They should present some incentives or schemes these employees would be interested in to retain them.

- To benefit fully from training, the company should prepare professional programmes which will suit both company and employee needs. They could assign this task to one of the more experienced providers, as STC did.
- A buyout of the employees' services with cash compensation was implemented by the STC for those employees who had worked in the PTT for
  - more than twenty years. Most of the old employees were interested in this compensation package. Saudia could use this option for the old employees, especially for unskilled and low productivity employees.
- The international experiences showed the importance of implementation restructuring in the case of redundant employees. Saudia has redundant employees and implementation of the restructuring is necessary to reduce the employee problems and give the decision-maker a broad view of the company's problems. Presenting various schemes with restructuring reduces the opposition and resistance of the employees.
- The company should adopt some private sector techniques in managing, marketing and developing the company's performance. Preparing training programmes in these fields would develop the performance of the employees.

### **Managers' opinions about the labour issues in privatisation**

The opinions of the managers were sought regarding the present labour issues and their relation to implementation of the privatisation. Saudia procedures of implementation of the privatisation on the workforce have also been considered in this section. The total number of questions was eleven, covering the employees and their relationship with privatisation implementation. The questions were divided into two parts as follows:

- The first part covered the employees and privatisation.
- The second part covered implementation of the Saudization Policy.

In the analysis of this chapter the questions took the abbreviation (EMPP) which refers to Employees Matters and the Privatisation Programme.

### **Part one: opinions of Managers regard Privatisation and employees**

#### **☒ Managers' opinions regarding labour resistance to privatisation**

Labour resistance is one of the major obstacles in the implementation of privatisation; this could refer to the fear of most of the employees of the



privatisation effect on them. Some countries or investors release the unproductive and unskilled employees as one method of reducing expenses and improving productivity. These procedures affect the social and economic situation of the employees, so most of them have a fear of privatisation. Question EMPP1 asked the sample if the employees resist the programme in Saudi Arabia. It gave them five options as shown in Figure 11.5.7 and their responses are described below.

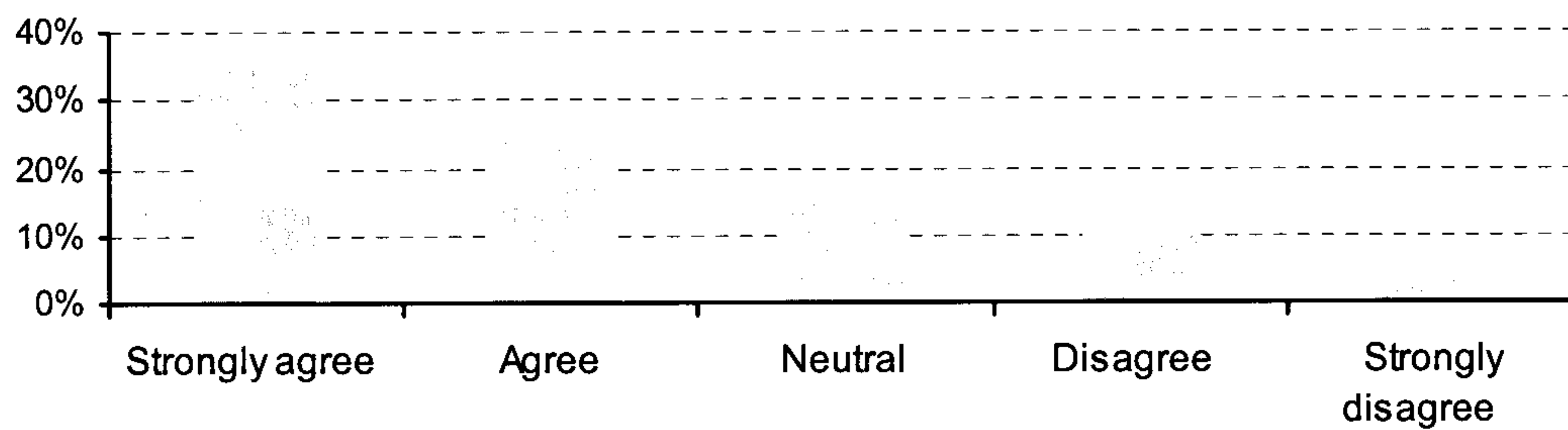


Figure 11.5.7 Managers' responses regarding workforce resistance to privatisation.

- 35.65% and 27.83% of the managers strongly agreed and agreed respectively that the employees constitute resistance to implementing privatisation. This percentage constitutes 63.48% of the total number, agreeing with the literature review and the researcher's opinions.
- The second rank is 15.65 % of the managers who selected the neutral option. 20.87% of them disagreed (12.17% disagreed and 8.7% strongly disagreed). These two percentages could be from the public sector. These results indicated that the majority of the public and private sector managers believe there will be resistance from the employees.

#### ☒ **Availability of law protecting the labour forces**

Employee resistance is one of the factors that could harm and delay different privatisation programmes, but the Government could absorb such resistance by establishing a law to protect them. The managers' views have been taken regarding the unavailability of such a law to protect the employees. Question (EMPP2) gave the managers five options, as described below in Figure 11.5.8.

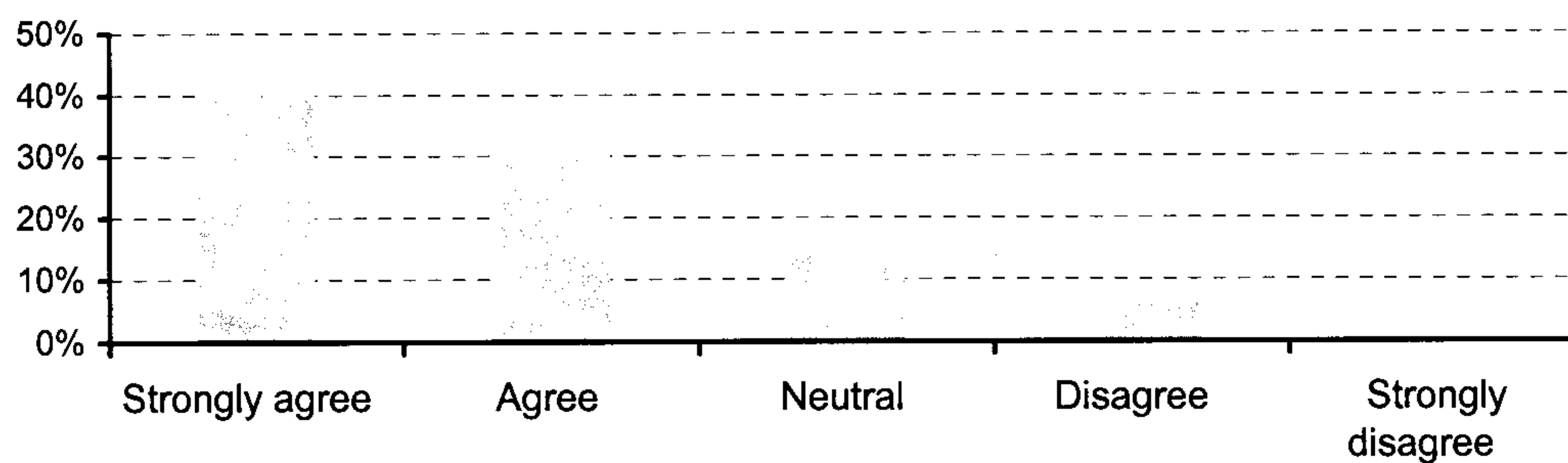


Figure 11.5.8 Views of the managers regarding unavailability of laws.

- 77.39% of the managers (42.61% and 34.78%) strongly agreed and agreed respectively that the unavailability of laws protecting the employees could cause delay in implementation of the privatisation. The second rank is of 15.65% of the managers, who selected neutral. 6.96% of them disagreed and none strongly disagreed. All these results suggest that the majority of the managers agreed that if there is no law the programme will be delayed.

- This could refer to the employees' resistance because there is no law to protect them from the dangers of privatisation. In this question, most of them agreed on the necessity of establishing a law to protect the employees that could help in smoothing the implementation of privatisation. Most of this percentage could be from the public sector because this law will serve most of them.

**☒ Could the scale of overstaffing constitute a barrier to privatisation?**

Most of the developing countries suffered from overstaffing in different public enterprises and that hindered privatisation in these countries. As the previous studies indicated, the size of the labour force in the enterprises is huge and most of them suffer from overstaffing. This problem could affect privatizing of different enterprises in Saudi Arabia; the researcher raised question EMPP3 and took the managers' views on whether the levels of overstaffing in the public enterprises constitutes a barrier to implementing privatisation that could cause delay. The managers' responses are shown in Figure 11.5.9 and described below.



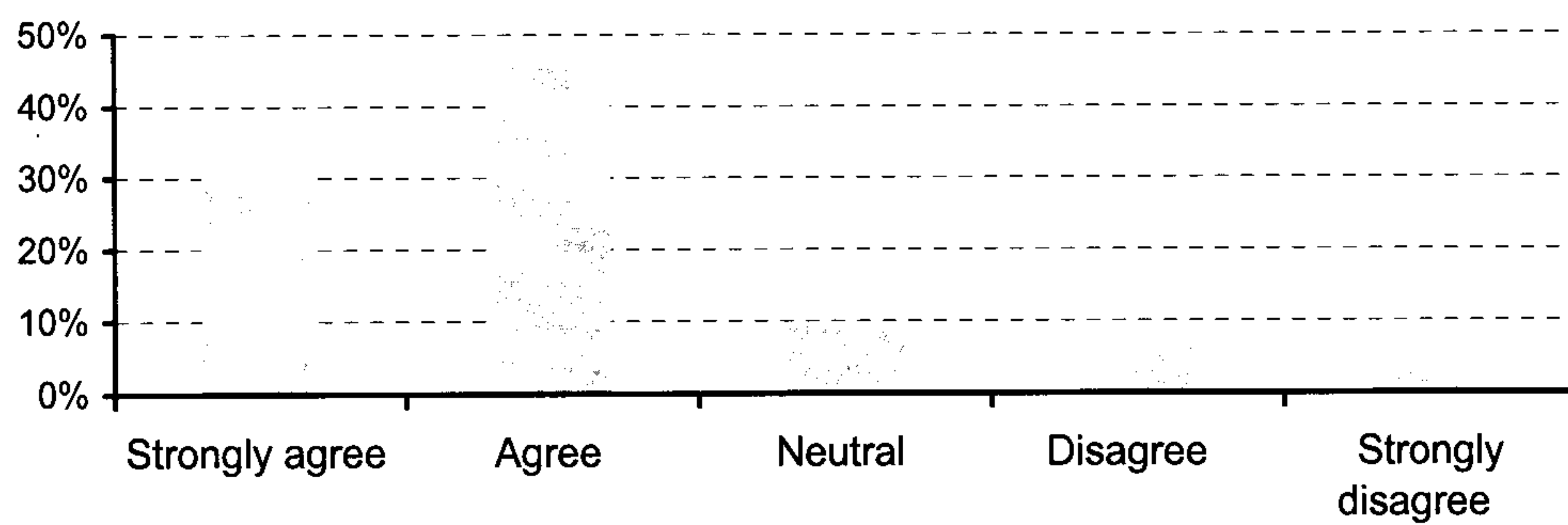


Figure 11.5.9 Managers' responses on whether overstaffing could delay privatisation.

- 30.43% and 47.83% of them strongly agreed and agreed respectively that overstaffing constitutes a barrier hindering the implementation of privatisation in Saudi Arabia. The third rank was of 9.57%, who selected neutral, while 10.44% of the managers disagreed and strongly disagreed.
- Two of the respondents, which constitute 1.74 %, did not respond to the question. These results are in agreement with the researcher's opinions.

#### **☒ Agreement on providing incentives to the redundant employees**

Agreement of the managers had been taken regarding whether the Government provides incentives to the redundant employees. Managers were asked in question EMPP4 whether the Government could present to the redundant employees in public enterprises a variety of incentives such as training, early retirement, etc. This question was raised because many of the public enterprises had a redundant labour force; their education is low and most of them lack vocational skills. This allows the government to help them in finding alternative employment. The managers' responses are shown in Figure 11.5.10 and described below.

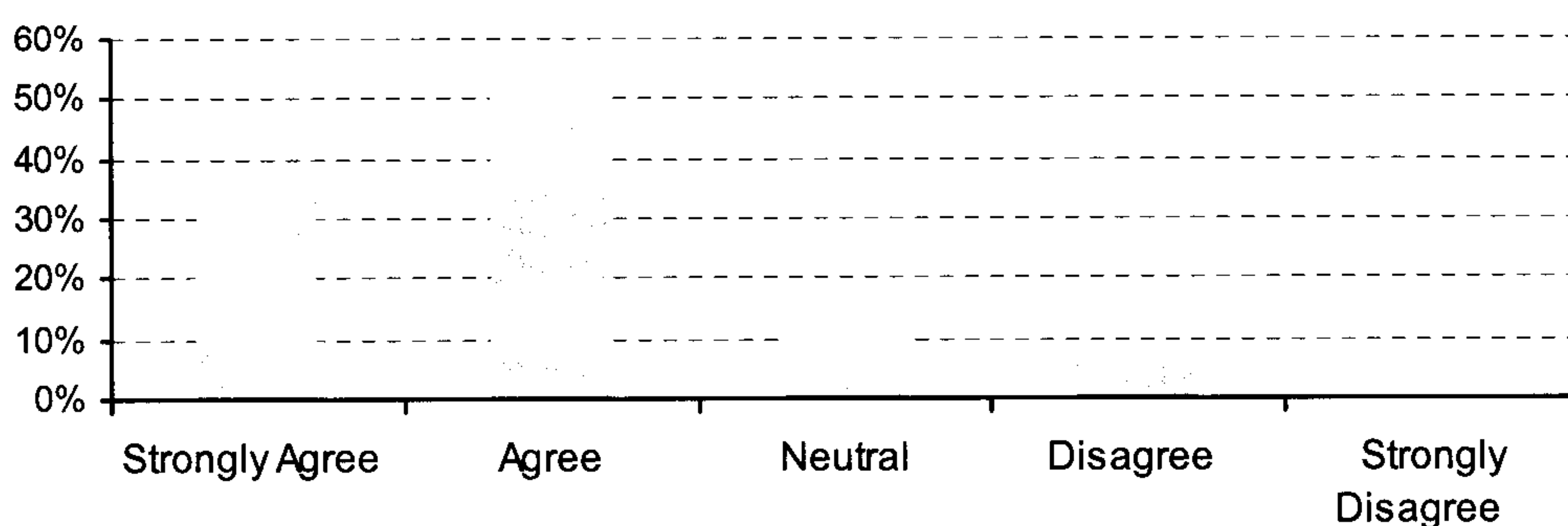


Figure 11.5.10 Managers' opinions regarding whether the Government could present incentives for redundant employees.

- 33.04% and 51.30% of the managers strongly agreed and agreed respectively

that the Government could present some incentives to the redundant employees. This percentage constitutes 84.34% the managers, who agreed that the Government should avoid harming them in the public entities. They could offer them different employment schemes. This will secure their future and safeguard them from social and financial dangers. The third rank was of 9.57% who selected neutral, while 6.09% disagreed, and none disagreed strongly.

**☒ Agreement on providing loans for affected employees.**

The views of the managers were taken regarding providing loans for affected employees. Question EMPP5 asked about the managers' agreement on whether the Government could establish a fund to support the redundant employees in the public enterprises to start their own business or look for other alternatives. The managers' responses are shown in Figure 11.5.11 and described below.

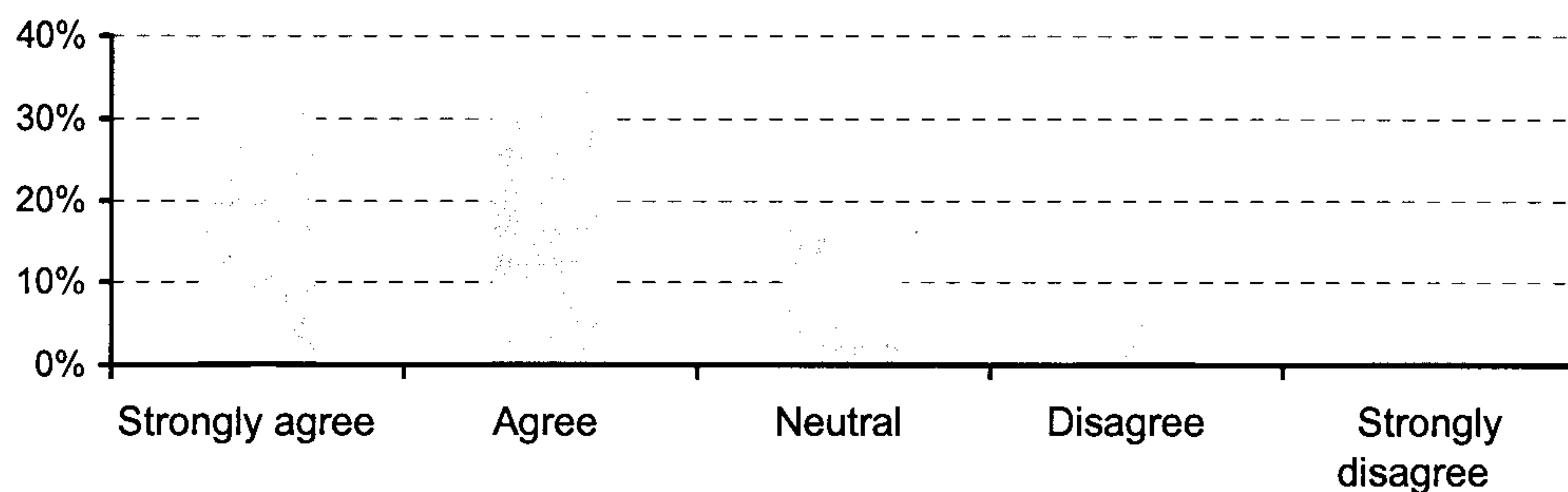


Figure 11.5.11 Opinions of the managers regarding providing loans to employees.

- 34.78% and 33.91% of them strongly agreed and agreed respectively that the Government could support the redundant employees by providing some loans. These loans could help them financially and socially and allow them to start their own business, etc. 17.39% of them were neutral while 8.7% and 2.6% disagreed and strongly disagreed about providing loans to redundant employees.

- The researcher believes that the managers who disagreed with providing loan did so because some of the employees could spend these loans and may not utilize the loans professionally. 2.6% did not respond to this question.

**☒ Agreement on establishing an office to handle the employees' affairs.**

The opinions of the managers were taken regarding establishing an office in the Ministry of Labour or an independent office to handle the affairs of the redundant employees. This office could help them in different enterprises and in handling



different matters, for example defending their rights in the public enterprises, searching for alternative employment, etc. Their responses to question EMPP6 are shown in Figure 11.5.12 and described below.

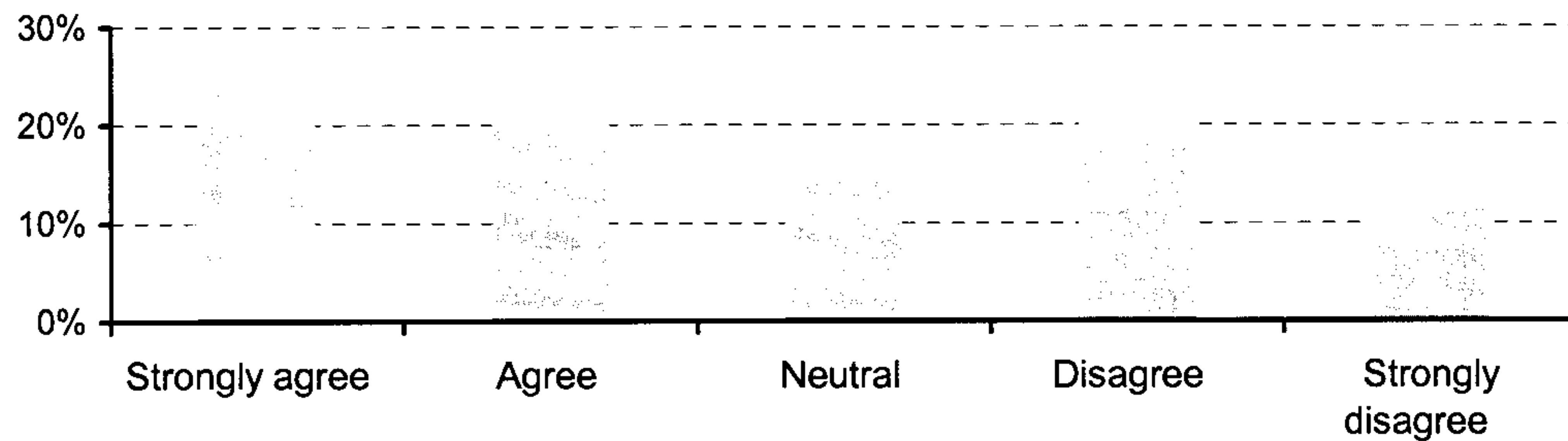


Figure 11.5.12 Managers' opinions on establishing an office to handle the employees' affairs.

- 23.48% and 21.74% of the managers strongly agreed and agreed respectively on establishing an office to handle the affairs of redundant employees of the public enterprises. 21.74% and 13.04% disagreed and strongly disagreed with establishing this type of office. 17.39% of the managers were undecided, while 2.61% of the managers did not respond to this question.
- During the distribution of the questionnaires some of them mentioned that there is no need for establishing this type of office because the Ministry of Labour or the Human Resources Development Fund can handle this task. The aims of these two organizations are different than the objective of this office, which helps in smoothing implementation of the programme.

#### **☒ Managers' opinions on restructuring of the workforce**

Many enterprises suffered from various employee problems, such as lack of productivity, skills in performing their duties, etc. Some companies or governments implemented restructuring of the employee system during privatisation to improve the labour force and increase productivity. Question EMPP7 took their opinions concerning whether the government could implement restructuring on the employee system before proceeding with privatisation. The managers' responses are shown in Figure 11.5.13 and described below.

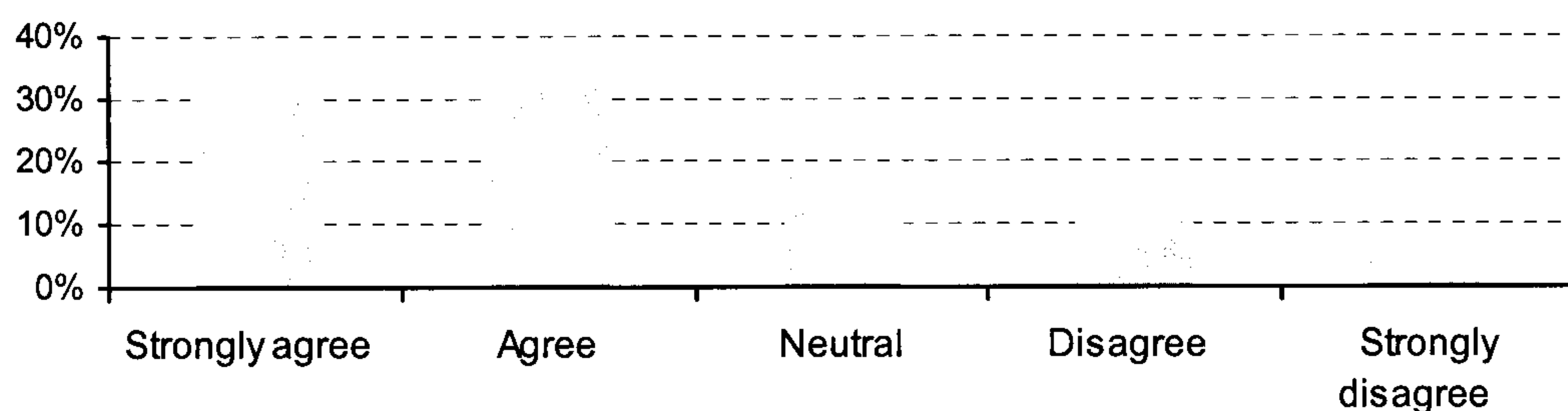


Figure 11.5.13 Managers' opinions regard restructuring of the employee structure.

- The figure shows that 31.30% and 33.91% of them strongly agreed and agreed respectively on implementation restructuring on the employee system before taking the public enterprise to privatisation. Restructuring will be helpful for the company and the Government when implementing different schemes such as training and retraining, early retirement, etc. on redundant employees.
- 19.13% of the managers were not decided between agreement and disagreement, while 10.43% disagreed and 5.22% strongly disagreed. 'Disagree' and 'strongly disagreed' could have been selected by the public sector managers.

#### **Second Part of the Questionnaire: Saudization Policy**

##### **Did Saudization constitute a barrier to implementing privatisation?**

Managers were asked about the Saudi Government's policy in implementation of the Saudization programme, and whether it constitutes a barrier to implementing privatisation. The Government issued several decisions to increase the percentage of Saudi employees in the labour market by creating different incentives. Their responses to question EMPP8 are shown in Figure 11.5.14 and described below.

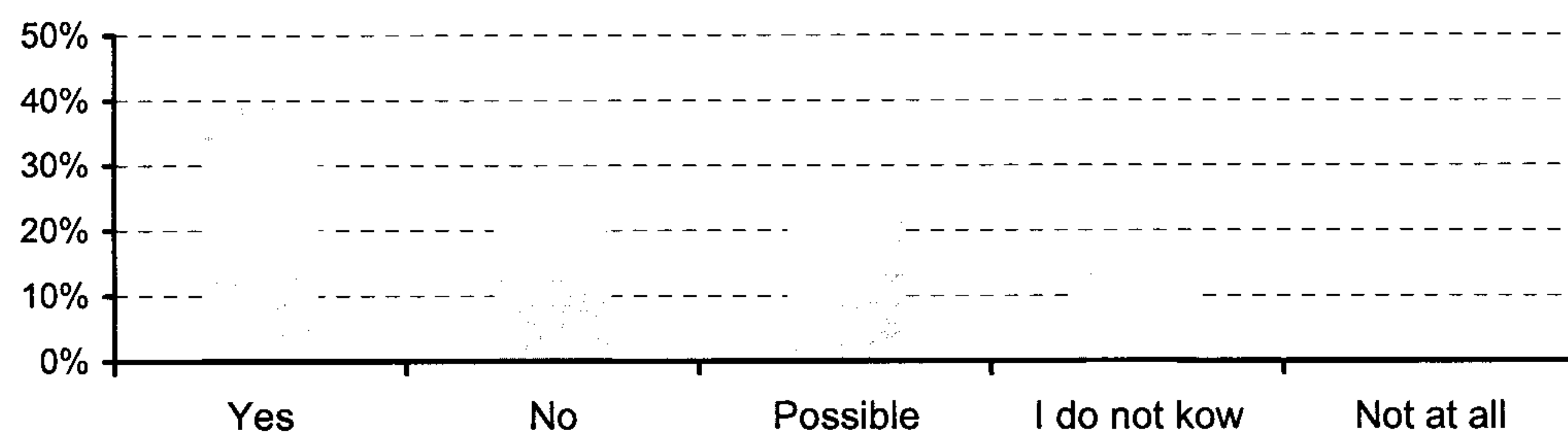


Figure 11.5.14 Managers' opinions regarding the effects of Saudization on privatisation.

- These results indicated that 39.13% of them agreed that the Saudization policy was creating barriers hindering the implementation of privatisation. Most of this percentage could represent the private sector because the Government issued some restrictions and regulations on the private sector in implementing the policy.



- 22.61% of them did not agree: most of this percentage could be from the public sector, because the Government employees were issuing the rules and enforcing them. 23.48% of them selected possible and 14.78% did not know.

**☒ Did the private sector reject the Saudization policy?**

Question EMPP9 was adopted to relate this question with immigration of investors from the country, because of the government policy which related to implementation of Saudization. Opinions of the managers have been taken regarding whether the private sector rejected Saudization. The Government issued different decisions to implement the policy on various businesses in the country, for example in the gold and vegetable markets, taxi drivers, etc., but none of these markets succeeded, apart from the vegetable market to some extent. All of that suggests that the businessmen did not accept this policy, so the Government delayed them. The results are shown in Figure 11.5.15 and described below.

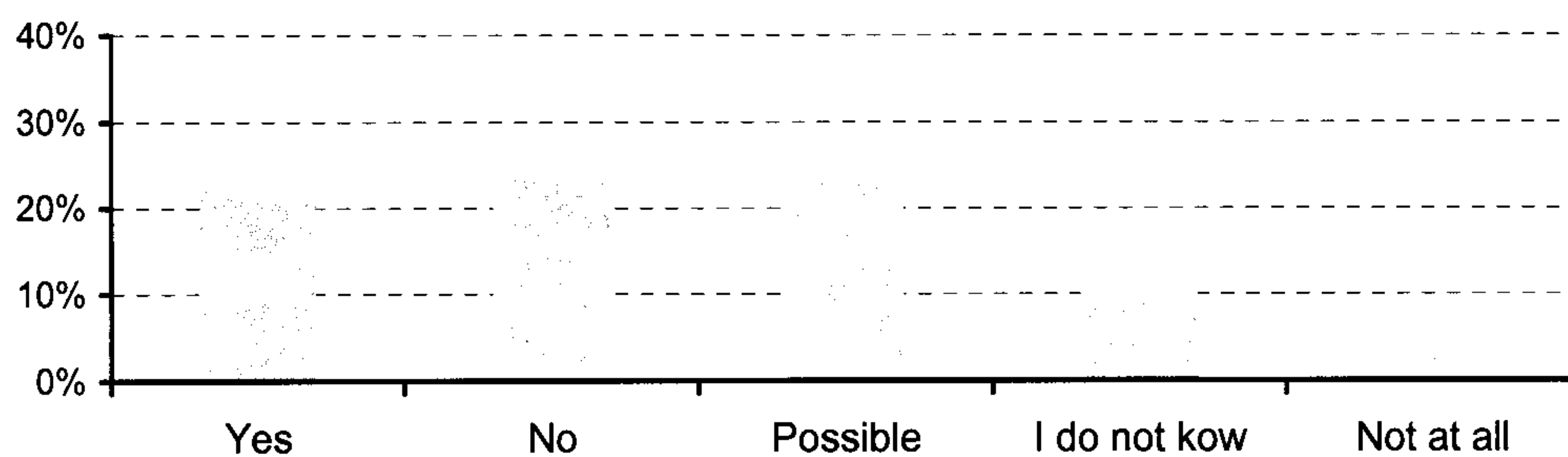


Figure 11.5.15 Managers' opinions regarding the investors rejecting the Saudization.

- 27.83% of them agreed that the private sector accepted implementation of the Saudization programme, while 28.70% were rejecting it, and 2.62% were rejecting it completely, 27.83% of them selected that it is possible that the private sector is rejecting the policy and 13.02% of them did not have any idea. This result was due to some of the managers mentioned during the interview that the private sector was not rejecting Saudization.
- These results indicated that the private sector is rejecting the policy, which means this could have an effect on privatisation. The national employees lack experience in handling some of the tasks in the private sector and they need some extra training programmes to improve their skills. The Government should cooperate with the investors to make this policy succeed by providing extra training, paying part of the employees' expenses, etc.

### ☒ Readiness of new graduates to work in the private sector

The managers were asked about their agreement concerning whether the new graduates were ready to work in the private sector. During distribution of the questionnaires some of the private managers mentioned that the new graduates did not like to work in the private companies, so the researcher adopted question EMPP10. Also, they mentioned that most of the new graduates are not yet ready and willing to work in the private sector. The managers' responses are shown in Figure 11.5.16 and described below.

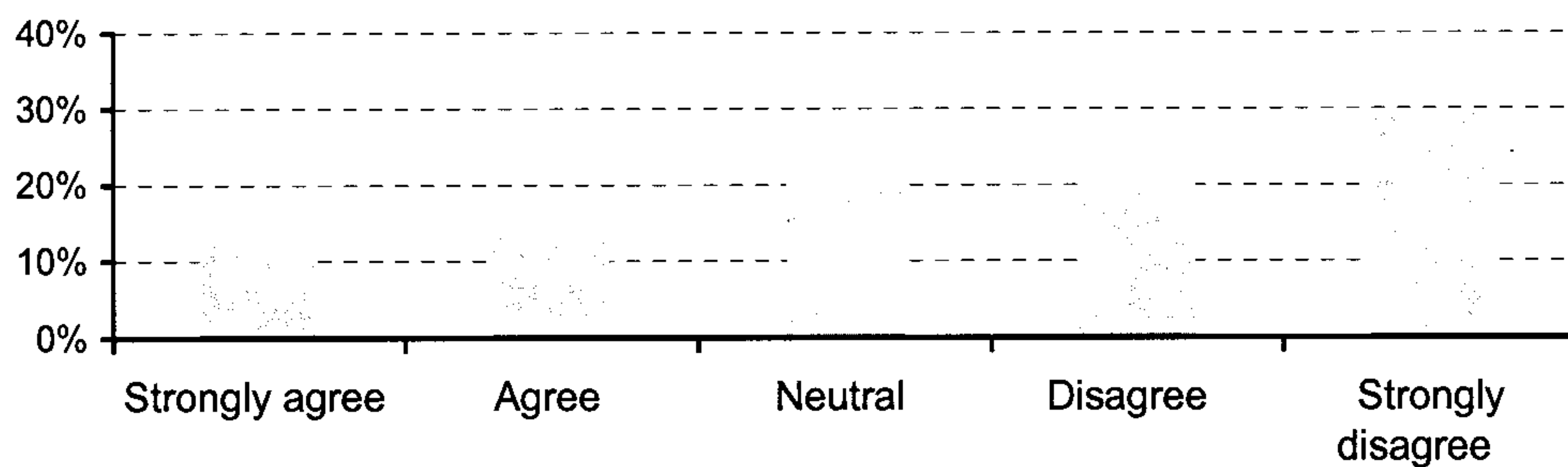


Figure 11.5.16 Managers opinions regarding the readiness of the new graduates to work in the private sector.

- 29.57% and 20.87% of them strongly disagreed and disagreed respectively, so 50.44% of the total number did not agree that the new young Saudis were ready to work in the private sector. 20.00% of the managers were not decided while 13.04% and 16.52% strongly agreed and agreed respectively, totalling 29.56% who agreed that the new graduates were ready to work in the private sector.

### ☒ Are the new graduates unwilling to work in the private sector?

The opinions of the managers have been taken regarding whether the new graduates were unwilling to work in the private sector. Adopting this type of question refers to the previous sections which mentioned that most Saudis prefer to work in Government jobs instead of in the private sector. The managers' responses to question EMPP11 are shown in Figure 11.5.17 and described below.



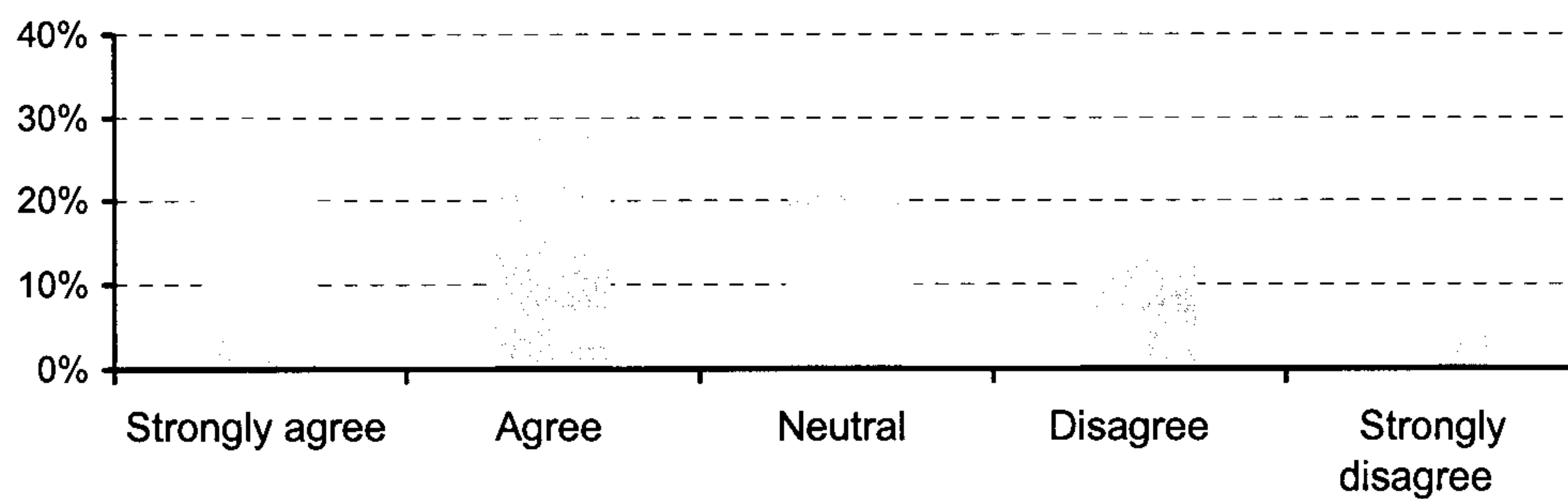


Figure 11.5.17 Opinions of managers regarding young Saudis not being willing to work in the private sector.

- 29.57% and 28.70% of the managers strongly agreed and agreed respectively that the new graduates were not willing to work in the private sector. Before preparing this question the researcher gained the impression that the new graduates were willing to work in the private sector; the public sector employment chances especially are very limited and the unemployment percentage is rising every year. The researcher was surprised with this high percentage.
- During distribution of the questionnaire, some of the private sector managers mentioned that the new graduates agreeing to work in the private sector but with the same easy regulations and rules which had been implemented in the Government jobs, while the private sector required very hard workers with high productivity, performance and efficiency in their jobs.
- 20% of the managers (13.91% disagreed and 6.09% strongly disagreed) disagreed that the new graduates were not willing to work in the private sector. One of the managers did not respond to this question. 21.74% of the managers were not decided between agreement or disagreement.

#### **Researcher's comments and recommendations on the managers' assessment**

The employees' questionnaire covered two major matters related to the employment market in Saudi Arabia. The first part included general matters related to the employees, privatisation, and redundancy. The second part contained questions about implementation of the Saudization policy. Most of the managers agreed that labour resistance could create a delay in the privatisation. This percentage was high and it could include some managers from the public. Their agreement could be interpreted as having knowledge about other

privatisation programmes having been implemented in other countries, and their awareness that some of them had been affected by employees' resistance.

Protecting the previous employees in different enterprises is one of the factors affecting privatisation positively in different countries. The managers agreed that the availability of a law could protect the labour force in different enterprises. 78.26% of the managers agreed that overstaffing could constitute a barrier in implementation of the privatisation. This is an indication to the Government that their programme could be exposed to delay because most of their enterprises suffered from overstaffing.

The Government should study the proper and suitable ways to keep their employees safe from the dangers of privatisation. Most of the managers agreed on establishing an office to handle the employees' matters in different enterprises. This office will study the employee matters, so it needs assigning to a professional management team to handle different matters related to human resources management. Establishing this office minimizes the effect on the employees by dealing with their affairs.

Keeping a huge number of employees in the enterprise affected negatively the performance and productivity of the company, while at the same time increasing the financial problems of the enterprise. Most of the managers agreed on implementation of restructuring and this could help them in different ways. Employees can get extra training or they could get other options; all of these could develop their financial condition, management and technical skills.

In the second part of the questionnaire, most of them agreed that the Saudization Programme created a barrier to implementation of the privatisation. The Government implemented and forced the policy on different businesses. The policy succeeded in some of the businesses but failed in others. They could develop the ones which succeeded, while they could investigate in greater depth why the others failed and modify them. It should study different aspects in the policy, such as the effect of the policy on the investment environment, methods of implementation of the policy, etc. 31.32% of the managers agreed that the private sector was rejecting the Saudization Policy.



Forcing the policy could have an effect on different businesses in the country, and at the same time could lead the local investors to search for other investment chances abroad. Most of the managers agreed that the new graduates were not ready to work in the private sector. This emphasised the relation between types of education and the types of jobs available in the market. The Government should develop the local employees' skills by adopting different methods such as developing existing education types and changing the culture of these employees to suit working in the private sector. Changing the culture could be difficult but the Government could introduce that through education, presenting some incentives when joining the private sector. This method could attract the new graduates to the market gradually.

Most of the enterprises have overstaffing; also, their productivity and education were low and that may constitute barriers to implementing privatisation. This may lead the labour force to resist implementation of privatisation because most of the employees fear the impact of the process. All these factors create obstacles to the implementation of privatisation, and it may cause delay in the programme. Before implementation of the privatisation on enterprises, the Government should study different matters related to the employees such as: condition of the workforce; the employees' productivity; type of qualification and type of training the employees have; the type of the work the employees are engaged in.

The study must investigate the employees' opinions and establish whether there is resistance or opposition, or whether it could happen in the future. This study could be used as a guide for them to deal with this matter seriously, and in using different methods to protect the employees. One of the most important matters that should be studied is providing a law or decision to protect the previous enterprise employees. This law must cover different matters related to the employees' rights such as finding other jobs, etc.

The problem of overstaffing needs investigation into different areas such as:

- How deeply this problem could affect productivity of the employees.
- Which type of employees could be affected by this problem and, after transferring the enterprise to the private sector, will this problem continue?
- Studying the affected employees' qualifications, experience, etc.
- Finding methods of developing the employees' capabilities.

Keeping a large workforce could affect the productivity and performance of the enterprise. Improving the enterprise performance after transferring some of their workers to the private sector necessitates the selection of more productive employees with adequate experience. This does not mean eliminating the unproductive staff, but they could be provided with training or other incentives to increase their productivity, or be transferred to more suitable posts. The researcher found that one of the companies affected by keeping a huge number of employees was Saudi Airlines (Saudia).

The Government issued several decisions on the matter since 1994, but up to now none of the company services have been transferred to the private sector, and it did not present any incentives to their employees. Saudia employed 24,000 employees in different fields, most of them in administrative positions. This huge number of employees affected the company's efficiency, productivity and performance.

To minimize the huge number of employees in the enterprise, they could present a variety of incentives such as: Offering shares; Finding other employment; Early retirement schemes; Linking the employees' work with the productivity; Linking the incentives and bonuses to productivity; Cash payment for separation; Giving the labour force the opportunity to undertake long-term unpaid holidays and; Providing long-term loans.

Each of the above offers has advantages and disadvantages; the Government will have to study them and use the most appropriate ones. The study should include the prerequisites for them, because implementing some of them may need a change in the law or creating new legislation. It is not necessary to use any of these, but they could use a variety of incentives while considering the employees' requirements. They could provide loans for the young employees to take the early retirement option, which could help them in starting their own business.

Producing such studies needs a professional office to discuss and deal with the employees' conditions. The Government should consider establishing such an office, which would require financial and administrative support, as well as the hiring of qualified employees. It could be independent or have a connection with one of the organizations dealing with labour and employee matters in the country.



Most countries considering privatisation were affected by overstaffing in the public enterprises, and this impacted negatively on the implementation of privatisation because these employees can resist and create opposition to the programme. These countries encountered difficulties when implementing privatisation on a large scale, and some countries considered employees as one of the factors which created a huge impact on their programmes. Different countries or companies implemented different techniques on the employees, such as providing for them some incentives or implementing restructuring to improve the employees' productivity and efficiency.

All of these efforts helped them in the implementation of privatisation and keeping privatisation effects on the employees to a minimum. Implementation of restructuring could allow for them to implement privatisation and distribute the enterprise's business and services into different activities. This proposal could attract more employees, reduce the risk on the employees and increase the competition between different providers.

Implementation of the Saudization Policy on any sector needs studying across different areas, such as: studying types of the qualification needed for this type of job; volume of the vacancies in this sector; number of employees available; the policy could fail, but to avoid that they should prepare the employees for these jobs; they could provide some incentives to the employees by attracting them to this type of job. Implementation of the policy requires dealing with different organizations such as the Ministry of Labour, Finance, Chamber Commerce, Higher Education, Vocational education, etc. It is very important that these organizations cooperate with each other.

They should study different matters such as methods of implementation of the policy, the amount of financial support, problems with the local employees, etc. The types of material provided in higher education should be studied and the market requirements should be checked. The Government could implement the policy with some incentives, such as developing the employees' skills, paying some of their wages, developing the appropriate type of education, etc.; the public and private education institutes need to coordinate with the private sector to be aware of the market's needs and prepare for these in their future plans. They

could list all the jobs needed in the private sector and prepare different programmes to make the redundant employees or the unemployed ready for the market requirements and these types of jobs.

## **Conclusion**

This chapter leads to the following summary:

- There are different effects on the employees; for example, the private sector pays lower wages, adjusts the employment system, reduces the incentives, etc. The Saudi Government can follow different procedures in avoiding such effects on public enterprise employees. The process of implementing privatisation on the workforce is not easy; this supported the researcher's suggestion to establish an office to handle the process and assign all the employees affairs to this office. This office should prepare clear procedures to deal with employee matters on a fair basis while also considering the investors' requirements. The main tasks of these offices are listing the employees' needs and complaints, and finding different solutions for them, studying the investors and Government requirements.
- Success of the privatisation depends on how the enterprises deal with the employees' problems and how developed the human resources management is in the enterprises and in the country. Most of these enterprises have overstaffing, plus their productivity and education are low; these factors may constitute barriers to implementing privatisation. The Saudi Government will face employee problems because there will be a challenge for them to employ the redundant employees and the new graduates, as shown previously.
- Discussing the employees' problems before implementation of the privatisation is very helpful in smoothing the process, otherwise they will face opposition which will hinder the process. Studying and dealing with employees' problems in a transparent way, they could offer them some incentives to encourage their participation and eliminate their opposition.
- Preparing the redundant and unemployed for the market's needs could be helpful in encouraging them to accept the jobs that are available in the market. They have to deal with this problem sensitively and the employees must feel secure about their jobs and careers if they are to continue in their companies.
- Implementation of labour restructuring could develop and increase the employees' productivity and improve the financial and social conditions of these



companies. They have to forge a relationship between education and the types of jobs available in the market. This would prepare the new graduates for the market's requirements. To help implement the programme smoothly the Government should consider using a variety of options and methods to deal with the enterprise employees; otherwise they could face opposition and resistance.

- The Government should search for a suitable solution to the labour force's requirements, or at least provide for them a law or warranty before proceeding in the process. Employing the less-educated created more redundant employees in the public enterprises. This underlines the position that the Government should implement different methods to liberalize various economic activities in the country. They could implement different techniques to attract investors, which would allow it to absorb and expand the employment market system and train the less educated employees.

- The labour force is resisting the implementation of privatisation because most of them fear its impact. This resistance could be absorbed by studying the employees' conditions and establishing a law to protect them. The enterprise should support the redundant employees and present to them some incentives. The success of privatisation requires reducing employee resistance by discussing with them their concerns, e.g. salaries, promotions, etc. Securing their employment future is essential to protect them from the dangers of privatisation.

- Modification of the existing labour law and adding some additional information. This information should help in reducing the effects on employees. The Government did not have enough experience to deal with the redundant employees. They could establish an office to help them in managing and dealing with the redundant employees' affairs regarding privatisation matters. Cooperation between the private and public sectors is essential in different areas that will increase employment and provide training and investment; that will help them in attracting investors and securing the future of redundant employees.

- Implementation of the Saudization programme could affect the investment environment. The decision-makers should consider and avoid the impact of the programme on the country, so they should develop the programme to fit with the country's requirements. They could implement the Saudization programme with some incentives, such as paying part of the employees' wages, preparing training programmes, etc.; that would allow the private sector to attract local employees.

- Liberalizing most of the Government's economic activities will allow the private sector to participate in different economic activities; this could create more jobs. The country should be working intensively towards increasing job opportunities in the public and private sectors through increasing investment opportunities in different spheres of the public enterprises, allowing for absorption of the growing labour force. All these efforts will be linked by increasing the training programmes, such as vocational studies, and establishing different institutions that are more closely related to the market's needs.



## **11.6 Appendix F: Types of restructuring and their tasks that could be implemented**

### **11.6.1. Type of the restructuring**

The Saudi Privatisation Programme mentioned three types of restructuring as generally fitting into one or more of the following categories:

- **Financial Restructuring:** this includes either adding or removing assets or liabilities to improve the financial standing of the enterprise.
- **Restructuring of manpower:** this involves transferring the employees or workers from the PE to the privatized enterprise and dealing with the employees' situation on the basis of a comprehensive study and clear plan developed by the enterprise in accordance with its future requirements.
- **Technical Restructuring (splitting up):** splitting up (an enterprise or sector) often helps create an effective regulated environment.

There were other types of restructuring used, as mentioned by Etukudo (2000), including the following:

- **Legal and institutional restructuring** involving a revision of the legal framework governing parastatals as well as the introduction of institutional frameworks aimed at achieving a better relationship between the government, investors, consumers and top management.
- **Management reorganization** through the use of modern management methods and tools. Organizational and operational restructuring involving reduction in management hierarchies and reorganization of production processes and marketing and information systems.

The privatisation strategy lacks a variety of additional restructuring types, such as organizational, management, operational, economic, ownership and legal restructurings. These types are very important in developing and improving the enterprises — implementation of them depends on the problems, and missing one of them could affect the productivity and efficiency the enterprise. The follows types could be used by several sectors or enterprises in Saudi Arabia:

**Comprehensive Restructuring:** It includes different types of restructuring (e.g. economical, physical and legal, etc.) and allows for reviewing different fields in the enterprise and implementing a variety of restructuring types if needed. This

type helps the Government in evaluating and analyzing most of the activities in the enterprise (e.g. financial, technical, operational, etc.). Comprehensive restructuring is dealing with different matters in the management, legal and other aspects of the enterprise, as will be discussed below.

**Management and Organizational Restructuring:** Nikolić (2002) described the role of the management team as being very important in the enterprise:

The enterprise management, as the carrier of managerial activities, performs this role through the development of the management process and performance of management duties. The structure of the management process, determined as a set of specific continuous activities, consists of the establishment, accomplishment and control of managerial activities. The permanence of the management process execution is based on adequate carrying out of a set of managerial duties.

The management team in any business is the major role player in leading, monitoring and developing the business methods. This is not limited to a certain type of business but in general includes a variety of economic activities in the public sector. The implementation of change in management techniques on the enterprise will create resistance, but at the same time will be helpful in injecting new creativity and ideas to the business.

Nikolić (2002) confirmed the role of the management in implementing the change:

The enterprise organizational restructuring, as an organizational change, should be adequately managed because it could create resistance to change. The employees mainly resist the changes when they are not included in this process. For this reason, the participation of all the structures of employees in the management of the organizational restructuring of the enterprise eliminates their destructive reactions and elevates the level of the project development efficiency and effectiveness. It increases the efficiency and productivity of the management and employees in the enterprise.

**Physical Restructuring:** This deals with matters that give the investors and customers a good impression of the enterprise that would help to attract them to the enterprise. It emphasises on improving the physical appearance of the enterprise in the market before taking the sector or the service to the market — this could be implemented by introducing a commercialization programme and quality management to some of the enterprise businesses.

It presents the improvement in the productivity and performance of the enterprise after implementation some of these techniques. This type should go in parallel



with other restructuring types: some countries took this type as the last step, and this delay affected taking the enterprise or the service to the market.

**Economic Restructuring:** This type deals with the economic condition of the enterprise or the country. Economic restructuring is one of the major indicators of the success of the enterprise in the national and international market. There is a good relation between this type and the other types. Success of the economic restructuring depends on development of the country's economy, such as the stock market, banking system, etc. This type could include changing some of the economic laws in the enterprise or in the country. Implementation of this type should be first because it has strong relationship with the other types and could affect all of them, depended on the country's condition in various fields.

**Legal Restructuring:** Deals with all the legal and legislation matters in the enterprise, services and the country. It looks to the situation of the enterprise and the country in terms of the legal matters and the legislation barriers which could hinder implementation of privatisation. Different tasks, such as developing, creating and changing different laws related to liberalize the enterprise, are included in this type.

**Ownership Restructuring:** This deals with changing the ownership of the enterprise from the public to the private sector, and reducing all the barriers hindering the private or citizens' ownership. Some regulations in some developing countries did not allow for the citizens and investors to own shares in different companies or government entities. The role of the Government in implementation of this type is to review these regulations, finding and modifying any barriers that could hinder transferral of ownership from public to private.

**Operational Restructuring:** Studies the operational and technical condition of the enterprise, such as developing the productivity of the equipment, improving the production lines and quality, etc.

Not all these types will necessarily be used in each enterprise, but most of them will be used in most of the enterprises according to the problems the enterprises have. The researcher highlighted these types to indicate that the Privatisation Strategy in Saudi Arabia and strategy of these enterprises omitted mention of most of the restructuring types (such as SEC, as will be discussed in this chapter

in the case study). This could be one of the problems affecting restructuring in different enterprises, that may affect their performance of later. In the next section, the researcher investigates the sequence of implementation of restructuring and presents some of the tasks related to each type of restructuring.

### **11.6.2 Restructuring tasks**

There are two types of tasks: first, tasks which are related to the restructuring types; these will be covered in more detail in the first part; second, tasks related to the restructuring team, will be covered in the second part.

#### ***First: Tasks related to the restructuring types***

This section will discuss the tasks related to the restructuring types. First, comprehensive restructuring tasks were not included because most of the tasks in the other restructuring types could cover this. Second, the researcher classified these tasks under each type of restructuring, and if the Government decided to implement any one of these types they would have to consider these tasks. Third, each of these tasks should be studied and investigated separately or as package with others, and it should be ensured that this task is considered. Lastly, each country can add other tasks according to the selected sector and enterprises and their real requirements. Tasks related to each restructuring type are as follows:

#### **▪ Management, organizational and workforce restructuring tasks**

These restructuring types can all be implemented simultaneously or individually. The tasks are as follows:

- Investigating the existing condition of the management in the organization and studying the types of senior management positions available in the organization, skills and qualifications needed to manage them. This process will make clear what type of qualifications and positions are required for each position, allowing the restructuring team to produce a proposal for developing the existing structure of the management by implementation of restructuring. This process helps in identifying the enterprise problems. It could also include studying the conditions of the employees, such as education, qualification, type of training and salaries and methods of their work processes.



- Investigating the number of employees required in each organization and department; studying the number of the employees in the enterprise allows for them to prepare plan for developing condition of the organization.
  - Implementing different types of management techniques such as changing management, developing and applying programmes for measuring employee productivity, providing various types of training, etc. This allows them to check the productivity, performance and redundancy of the employees in the enterprise.
  - Reorganization of the senior management team through assigning the qualified managers and employees according to their qualifications and each department's needs.
  - Transferring the enterprise from the public to the private needs establishing an independent role for the board of the managers of the company or the sector, they have to make sure that all procedures of the board and tasks are transparent and accountable.
  - Studying the management structure and the sequence of the work. This could allow the Government to implement restructuring that involves reduction in the management layers and levels and simplifying management procedures.
  - Specifying the noticeable variables that are related to the performance and productivity of the managers and employees, and evaluating the alternatives to get the information that are relevant to monitoring, managing and controlling the enterprise or the sector.
  - Designing and offering some incentive schemes for the employees by linking their performance and productivity with various compensation options.
  - As a step for liberalizing the sector or the company, they have to apply multiple reforms to managerial control in the sector or in the enterprise by establishing systems which allow for public ownership. They have to provide some incentives to the employees such as early retirement schemes and training, especially if the enterprise has redundant employees, and design some compensation programmes to improve employee productivity and performance.
- Most of the employee issues have already been discussed in Chapter Six.

- **Physical restructuring tasks**

This type deals with improving and developing the appearance of the enterprise in the market. The purpose of implementing this type is to indicate the enterprise has good market condition — the tasks include:

- Keeping the facilities and equipment in good condition to attract investors to the enterprise. They could upgrade or replace old equipment or technology.
- Improving and developing the old facilities.
- Improving the productivity measures and quality control.
- Improving and bringing the enterprise services to different markets.
- Increasing the selling points in the country, using different types of advertising and establishing and developing the marketing process.

Using these measures increases the desire to invest, to use the company services, own shares or participate in the business, etc. Attracting the investors and customers increases the revenue of the enterprise.

▪ **Economic and financial restructuring tasks**

This type of restructuring is very important and it deals with one of the more dangerous matters in each enterprise and country. Implementation requires the study of all the economic and financial issues which affect the enterprise performance. Sometimes the study could cover the economic and financial conditions in the country, the study could include the following points:

- Studying the financial and economic conditions of the enterprise and assessing the impact of the financial and economic restructuring on the prices, investment and rate of returns.
- Reducing the subsidies and determining method of implementation of hard budget constraints on the enterprise and making sure this works. The study should consider the effect of the constraint on the enterprise performance, prices and customers.
- Developing the financial procedures in the enterprise and developing the legal and legislative matters that are related to the economic and financial conditions.
- Preparing the financial reforms through focusing on several items such as assets and debt/equity structure.

▪ **Legal restructuring tasks**

Development of the legislation and legal systems in the country helps in reducing the barriers to implementation of restructuring policy. It includes tasks, such as:

- Revising the legal framework governing the enterprise and making sure that it is working by introducing institutional frameworks to the company aimed at



achieving a better relationship between the Government and the top management or the Government and the customers and investors.

- Identifying and evaluating the institutional and contractual arrangements between various units or departments in the company or sector.
- Establishing the regulatory entity with enough jurisdictions over enforcement and the resolution of disputes, and over any segment of the company.
- Considering building institutional systems within the enterprise.
- Studying the legal system and laws dealing with various matters that could hinder the programme (financial, operational, workforce and other conditions.)

▪ **Ownership restructuring tasks**

Change of ownership is the outright conversion of the enterprise, which usually happens from the Government to the private sector or employee or citizen's ownership. Changing the ownership of the enterprise or the sector requires several tasks, such as:

- Studying methods of transferring the ownership with consideration to minimizing impact on the enterprise. The transfer could be full or partial, depending on how much the Government wants to retain.
- Studying types of ownership could be used.
- Issuing of certificates to the new owners.
- Implementing some restrictions on cross-ownership, that is, on ownership of several business units.

▪ **Operational restructuring tasks**

This deals with the operational condition of the enterprise, including the following:

- Specifying the enterprise activities, studying the operational procedure in the enterprise and determining stages, types and methods of production in the enterprise. This saves the enterprise in the production process, cutting some of the expenses, and developing type of the product or the service; identifying the company production to allow for specifying the services or parts of the business that could be privatized, subcontracted, leased or open for investment.
- Studying the possibility of dividing the enterprise into small operational businesses to see whether this could help in managing the operational and technical work in the enterprise or sector.

- Reorganizing or rearranging of the production process if needed and establishing the performance measures for each production stage; this allows evaluation of the company production procedures which will economise many things, such as the expenses in the cost.

In conclusion, all these restructuring tasks are interrelated with each other and each restructuring type needs the sequencing of all their tasks. These tasks could be used as guidelines for implementation of various types of restructuring. Some of them could go in parallel with each other, so this should be considered when implementing the process.

This indicates that implementation of the process is complicated and should consider different matters in the enterprise, and it depends on different factors as follows:

- Selecting a restructuring team with enough experience and knowledge in implementation of several types of restructuring (financial, legal, management).
- The process needs sequencing of the different tasks.
- Implementation of the restructuring needs participation and cooperation from different government and private organizations.

***Second: Tasks should be handled by the restructuring team***

This section and the previous one both emphasise the role of the restructuring team in implementation of the process. This section could give some guidelines or types of task that could be assigned to the restructuring team. This section covered some of the tasks that could be assigned to the restructuring team, as follows:

- Implementing different types of restructuring as mentioned in section 6.9.1.
- Monitoring and managing different activities in the process.
- Looking for reducing the management layers in the enterprise or the sector.
- Studying to minimize the length and the cost of the restructuring process.
- Studying of the financial, economic, labour, and other fields in the enterprise before proceeding in the process, and producing various types of reports which reflect the existing situation of the enterprise, then specifying the major problems in the enterprise. They have to visit and inspect the condition of the facilities and equipment of the enterprise.
- Discussing the programme with different departments in the Government.



- Preparing a timetable and scheduling implementation of the process.
- Specifying the need for implementation of restructuring and the benefits the company could expect after the process. Specifying and defining the objectives of implementation of each type of restructuring.
- Eliminating the direct and indirect subsidies to the enterprise.
- Making comparisons before and after implementation of the restructuring in terms of performance, efficiency, profit, productivity, price, etc.
- Giving some recommendations on how to implement types of restructuring.

These points could be used guidelines for the restructuring team to implement different procedures for improving the existing conditions of the enterprise.

### **11.7 Appendix G: Views of the managers regarding the restructuring strategy**

The restructuring policy constitutes one of the major barriers hindering implementation of the privatisation on the PE in several countries. To study this barrier, public and private sector managers' views have been taken to analyse their views about the restructuring policy and its implementation on the PEs in Saudi Arabia. The researcher took the opinions of public and private sector managers about this issue and others; for example, the Privatisation Strategy assigned to the PE managers implementation of restructuring; managers constitute barriers in implementation of the change as mentioned by several authors.

Restructuring could be resisted by several groups, as stated by Pleskovic and Stem (2000): "They are assumed to lose from strategic restructuring and they have no incentive to engage in defensive restructuring. The political economy constraint that must be overcome is resistance to layoffs within firms. Owing to symmetric information, there may be resistance to defensive restructuring both from bad and good managers who face high costs from it,".

Sager also mentions that "Reform may be obstructed or delayed by these individuals or groups whose personal interests are at cross-purposes with the reforms. It is imperative to restrain these obstructionists from having their way out of conviction that public interest rises above clannish or individual interests," [126]. Their opinions allowed the researcher to gauge their level of agreement with the restructuring policy. This chapter uses (RPPE) as abbreviation for the Restructuring Policy of the Public Enterprises.

#### **☒ Restructuring could create barriers in implementation of privatisation**

The relation between privatisation and restructuring is very strong, and both of them affect each other positively or negatively. The researcher found it necessary to ask such a question because most of the enterprises, such as Electricity Company, Airlines, Aviation, Sea Port, etc delayed implementation of their privatisation. Some of the enterprises implemented restructuring such as the Saudi Electricity Company but they are still making losses every year.

The researcher thought the reasons for delaying implementation of the process could be that the restructuring policy had not been fully studied or was not clear.



The agreement amongst managers about implementation of the restructuring policy on some of the enterprises possibly constituting a barrier has been taken, as shown in question RPPE1. The managers were given five options as shown in Figure 11.7.1 and explained below.

- 40.00% and 32.17% of the managers strongly agreed and agreed respectively, which constitutes 72.17% of all the managers agreeing that the restructuring policy created a barrier in implementation of privatisation. 13.04% of them were neutral, while 6.09% disagreed and 7.83% strongly disagreed that it did not constitute a barrier in implementation of the restructuring policy. One of the managers (0.87%) did not respond to this question.

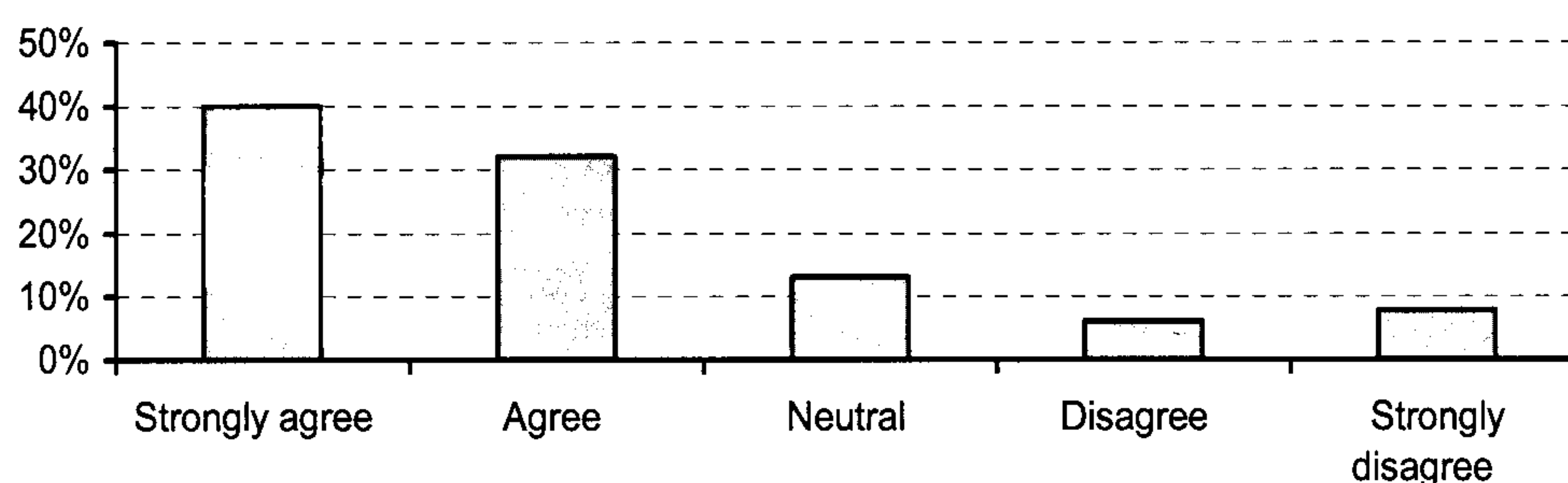


Figure 11.7.1 Opinions of the managers regarding whether the restructuring policy could constitute a barrier.

**☒ The restructuring policy being open**

The privatisation strategy lacked information related to the restructuring implementation, such as criteria for selection, timing and steps of the restructuring. Managers were asked about their agreement regarding whether the restructuring policy was open and if that constituted a barrier in the implementation of restructuring which would have a negative effect on the privatisation. They were given five options, as shown in Figure 11.7.2.

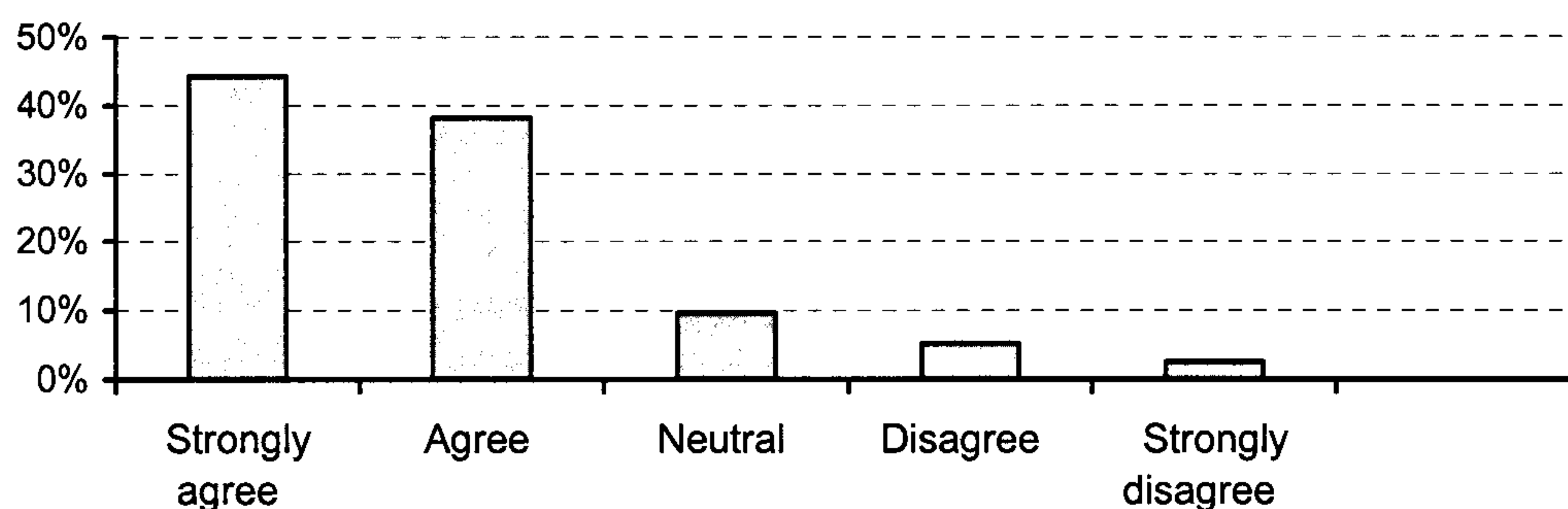


Figure 11.7.2 Managers' views regarding whether the restructuring policy was open.

- The response to question RPPE1 was surprising for the researcher, because of the 95 respondents, 44.35% strongly agreed and 38.26% agreed, which constitutes 82.61% of the total of all the managers agreeing that the privatisation strategy opened up the restructuring process and that created a problem with the implementation of privatisation on most of the enterprises. 9.57% of them were neutral, while 5.2% of the managers disagreed and 2.6% strongly disagreed.

#### ☒ **Developing the restructuring policy**

Question RPPE3 assessed the managers' views regarding the development of the restructuring policy. Managers were asked for their opinions concerning whether the government was developing the restructuring policy and preparing full studies with criteria, objectives, tasks, etc. This helps different public enterprises in implementation or preparing their own restructuring policy, which has a positive effect on privatisation. The managers' opinions with the given options are shown in Figure 11.7.3 and explained below.

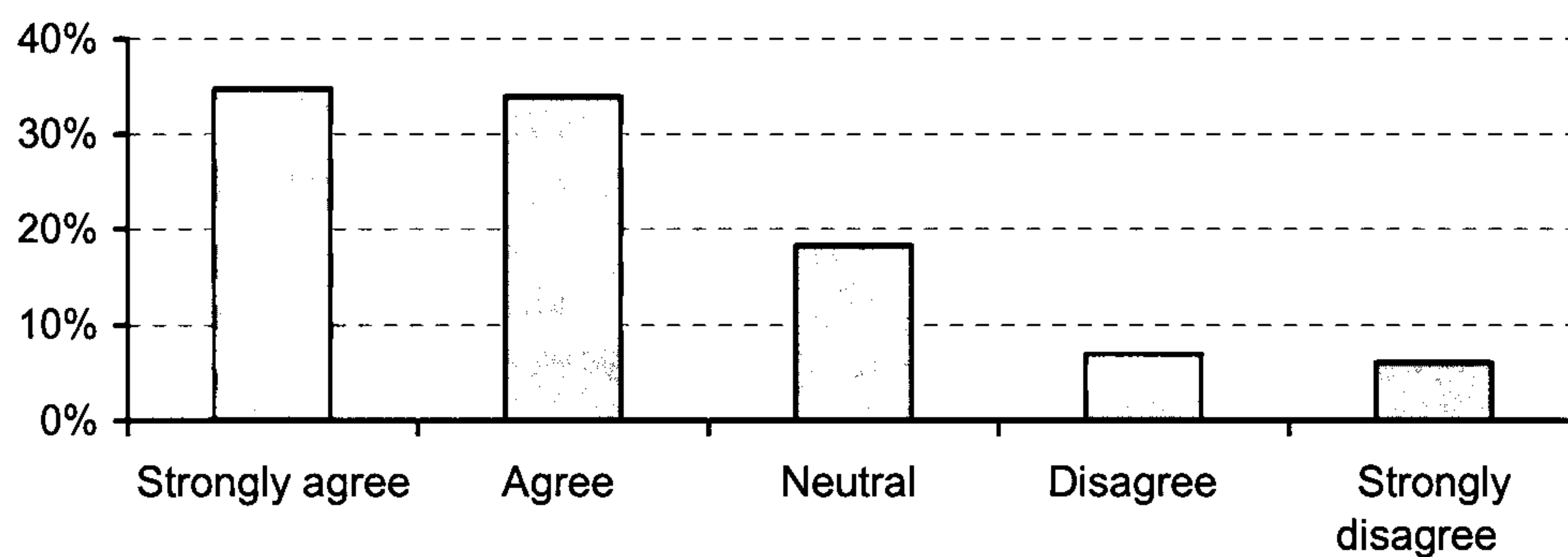


Figure 11.7.3 Managers' responses regarding developing the restructuring policy.

- This question indicated that 71.78% of the managers agreed on developing the restructuring policy; this percentage included 34.78% who strongly agreed and 33.91% who agreed. 21 managers, constituting 18.26%, were not decided. 6.96% and 6.09% of the managers disagree and strongly disagree respectively on developing the old restructuring policy.

#### ☒ **Assigning planning and designing of the process to another organization**

The privatisation strategy was assigned to the public enterprise employees who were handling implementation of the restructuring. Most of the enterprises have different problems, so assigning the task to them could hinder the process because they lacked experience, they want to hide the problems, etc. The managers'



opinions have been taken regarding which was the appropriate organization to handle planning and designing the restructuring process; this question allowed them to select more than one if they wished of the four options (PRPE4-7) as shown in Figure 11.7.4, along with their responses. This question allowed the researcher to know if the managers were satisfied with the Government's decision to assign restructuring to the public enterprise employees.

- 55.39% of them agreed with assigning implementation of the restructuring to a professional office. 33.04% thought that the organization that had more experience in implementation of the restructuring is the Privatisation Committee. 30.43% preferred to assign implementation of the restructuring to an independent team rather than a public enterprise. Lastly, 28.70% agreed that assigning restructuring to the public enterprise should be the last option.

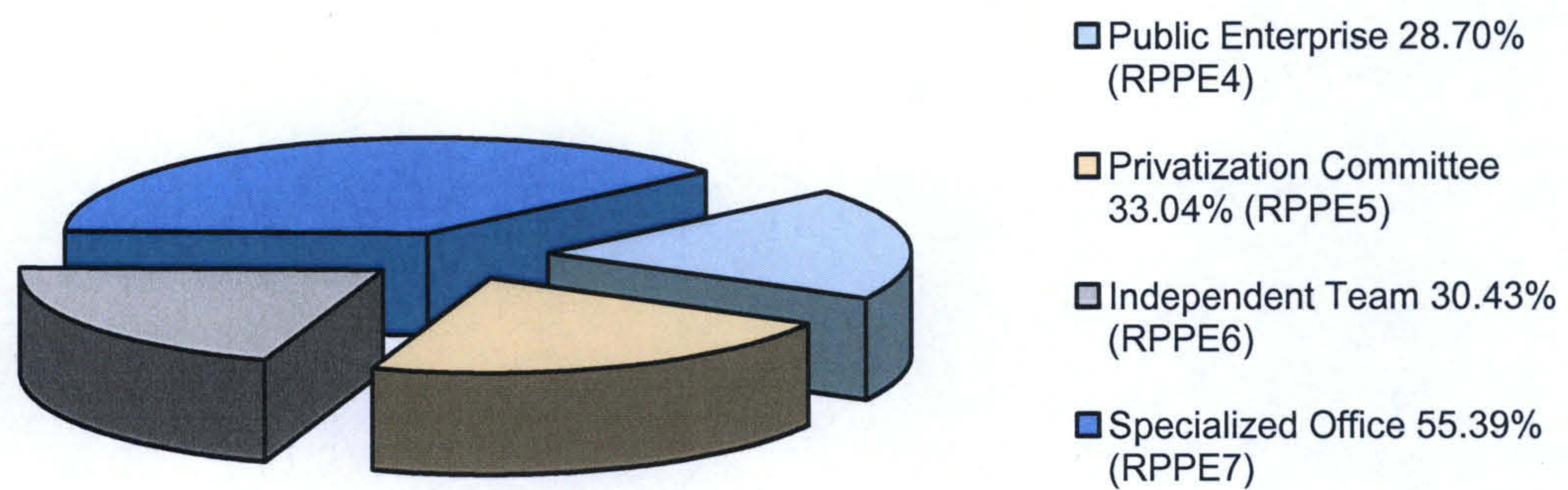


Figure 11.7.4 Managers' responses regarding the appropriate organization to handle the restructuring.

- The options were rearranged from the highest to the lowest as follows:
  1. Specialized office.
  2. Privatisation Committee.
  3. Independent team from the enterprise and working under the sector.
  4. Public enterprise employees.

**☒ Objectives that could be achieved by implementation of the restructuring**

The managers were given four objectives which could be achieved by implementing the restructuring policy. This question allowed the managers to choose more than one objective that could be achieved. This question allowed the researcher to examine the knowledge of the managers about the restructuring. The



managers' responses to question (RPPE 8-11) are shown in Figure 11.7.5 and described below.

- 66.09% agreed on the elimination of unproductive employees as the first objective which could be achieved. Increasing performance and productivity was the second objective (53.91%). 45.22% agreed on reducing the financial deficit and increasing income as the third objective.

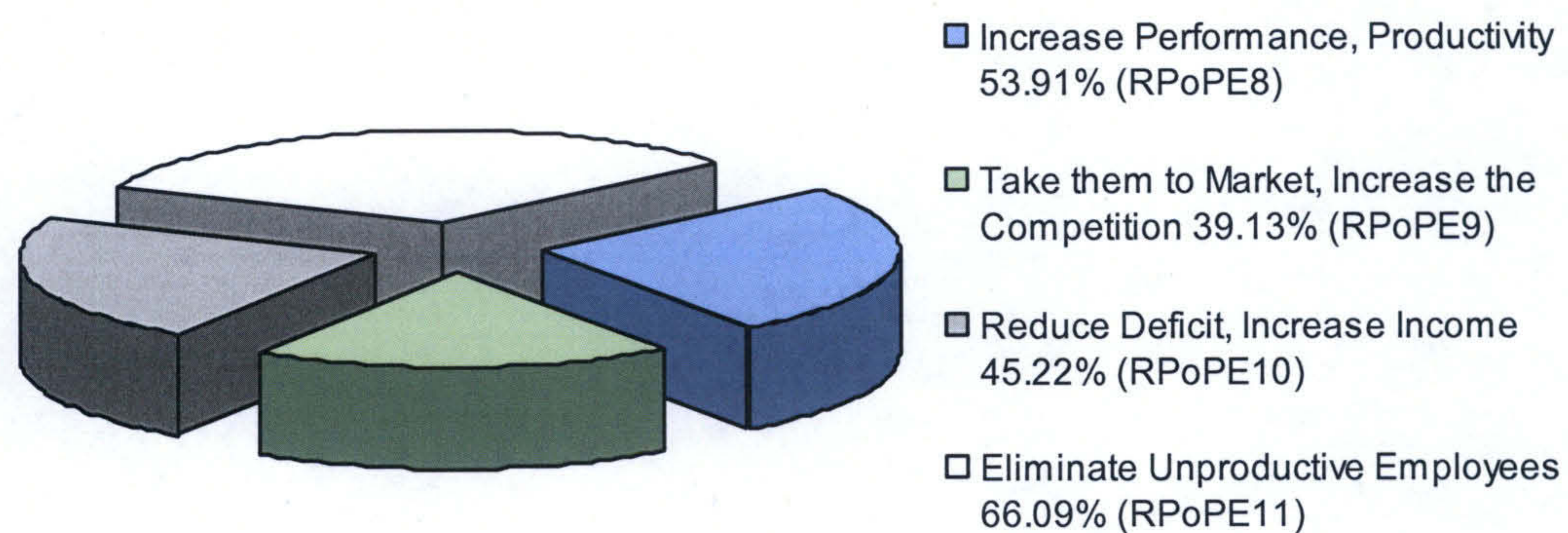


Figure 11.7.5 Managers' responses regarding objectives that could be achieved by implementing restructuring.

- The researcher rearranged the restructuring objectives according to the managers' responses from the highest to the lowest as follows:

1. Eliminate the unproductive employees.
2. Increase the performance and the productivity.
3. Reduce the financial deficit and increase the income.
4. Taking them to the market and increasing the competition.

#### ☒ **Restructuring types that could be implemented**

Managers were asked to rank five types of restructuring which could be implemented on the public enterprises from the highest to the lowest. This allowed the researcher to know what types of the problems affected the organisation most and what type of the restructuring could be implemented on different enterprises. Question (RPPE 12-16) allowed the respondents to select more than one option if they wished. The researcher could ascertain if the management is involved in the problems of the enterprises. The managers' responses are shown in Figure 11.7.6 and explained below.



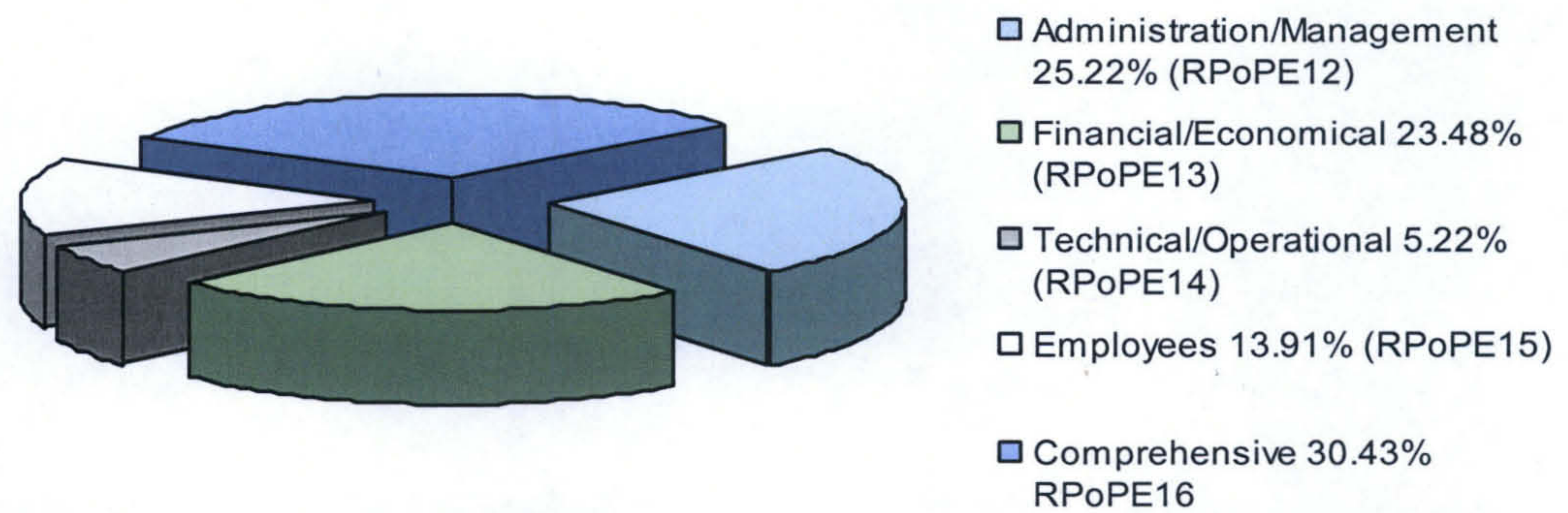


Figure 11.7.6 Managers' responses regarding ranking types of restructuring that could be implemented.

- The researcher included 'comprehensive restructuring' to see if these enterprises have more than one problem. They agreed that most of the enterprises need comprehensive restructuring, with a score of 30.43%. The second restructuring type that could be implemented was the management and administration restructuring, with 25.22%. Financial and economical restructuring is one of the problems which have an effect on the performance of an enterprise. They agreed that financial restructuring was the third option with 23.48%. 13.91% and 5.22% of the managers respectively agreed that the employees and technical restructuring could be implemented after all the other types.

- The options were rearranged according to the managers' responses from the highest to the lowest as follows:

1. Comprehensive restructuring.
2. Management and administration restructuring.
3. Financial and economical restructuring.
4. Employee restructuring.
5. Technical and operational restructuring.

**☒ Necessity of implementation of restructuring with steps and timing**

Restructuring needs preparing steps and timeframe for implementation. This is very important for the success of the process, as it allows the Government to plan these enterprises for privatisation in ways that provide the financial resources (if needed) and the other necessary procedures such as evaluation, bidding, etc. The managers' opinions have been taken regarding their agreement about the necessity of preparing a restructuring policy by following organized steps and timeframe. Their responses are shown in Figure 11.7.7 and explained below.



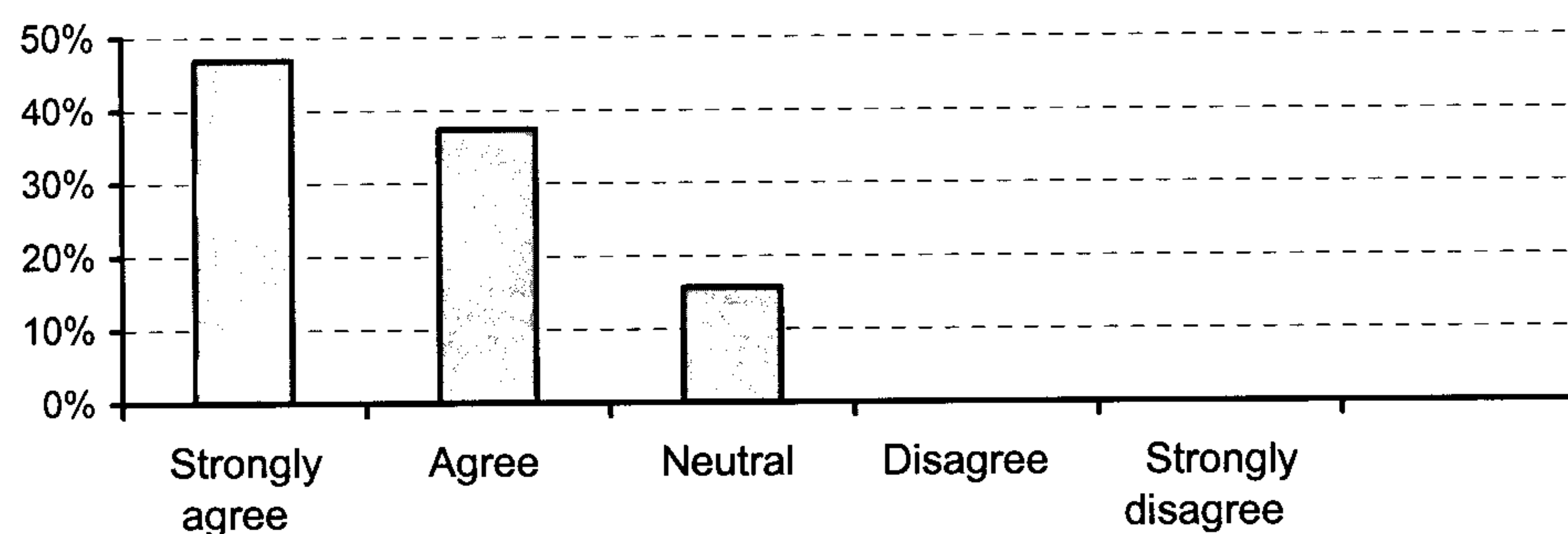


Figure 11.7.7 Managers' replies regarding establishing steps and timing for restructuring.

- 46.96% and 37.39% strongly agreed and agreed respectively that implementation of the restructuring policy should be phased and timed. Hence a total of 84.35% agreed on implementation of restructuring with steps and timing. 15.65% of managers were not decided. None of them disagreed or strongly disagreed with this question.

#### **Comments of the researcher on the managers' opinions**

72.17% of the managers agreed that the restructuring policy created a barrier in the implementation of the privatisation programme in Saudi Arabia. This result agreed with the researcher's findings in the literature review; this factor is one of the barriers hindering implementation of privatisation in different countries. This could be a signal to the Government to modify the policy. Most agreed that the Government should develop the restructuring policy, while some disagreed with this decision. The researcher deduced that the managers who disagree with developing the policy did not want these enterprises to be taken to privatisation.

Developing of the existing restructuring strategy makes it clearer to all the organizations and parties involved in the process, help the decision-makers in approving and implementing of the process, and allows for smoothing and speeding of the privatisation. Developing of the policy should be studied in depth and include different matters related to restructuring, such as the objectives, criteria, timing and steps of adopting the restructuring. This means most of the public and private managers agreed that the restructuring policy needs more studies to include all the missing matters related to restructuring.

The Government could develop the restructuring policy by taking different opinions from some of the managers in the private sector, advisors and in the



enterprises, and also those who are working on the privatisation process. This helps in smoothing the process which will lead to the actual implementation of privatisation on most of the enterprises. The researcher deduced that the managers realized assigning the restructuring process to the public enterprises was causing delay to the process which would affect the privatisation programme negatively.

Hence they decided to assign implementation of the process according to the following ranking: Professional office, Privatisation Committee, Independent organization or team and the public enterprise. Assigning implementation of the restructuring policy to more experienced people and a professional office helps the Government in speeding up the process.

In the second part the managers agreed that the first advantage of implementation of the restructuring could be a reduction or elimination of unproductive employees. This result could refer to the managers' agreement that the major problem affecting most of the enterprises is overstaffing. They realized these problems have a negative effect which leads to employees becoming unproductive. This has an effect on the total productivity in most of the enterprises, and could potentially lead to these enterprises lacking quality of performance and productivity. Implementation of the process could increase their performance and productivity; however, the Government should reduce the financial and social impact on the employees.

Their agreement on reducing the financial deficit and increasing income as the third objective indicated they have some experience of the restructuring process. That suggests they did not select reducing the financial deficit and increasing income as the first priority, because these enterprises need to improve the employees' performance and eliminate the redundant employees in order to become more profitable. This contradicted the next question, because most of them ranked the employees in the fourth position, considering management restructuring to be more important than restructuring of the workforce.

In the third part of the questionnaire, implementation of comprehensive restructuring has more advantages than the other types of restructuring, because it satisfies the requirements of the enterprises and could alleviate the failures of different enterprises in a variety of fields. It includes most of the types and this

could help any enterprise to rectify their problems. This means all the managers agreed there was more than one problem in the public enterprises and these could be rectified through this type of restructuring.

Managers agreed on management restructuring as the second most advantageous option. The researcher interpreted the managers' selection of this type as being due to their realization that most of the financial, employees and operational problems came from mismanagement within the enterprise. Managers ranked the technical and operational restructuring option last; this could refer to the type of the work the participants are involved in, because most of them were not involved in these two fields. Nevertheless, this type of restructuring is very important for the success of the privatisation because it is related to the productivity and efficiency of the enterprise. Also, it depends on developing, upgrading and replacing the equipment, which is part of the technical or operational restructuring.

Preparing the steps and the timeframe before implementation of restructuring are very important to increase speed implementation of the process and help in the success of both the restructuring and privatisation programmes. Implementation of the steps and the timeframe help in managing, supervising and monitoring of the sequence of the process. The process needs a professional office or organization to handle them before commencement. They realized the importance of planning, and that it cannot be realized unless the phases and timeframe are implemented on the restructuring.



## **12.8 Appendix H: Case study: Saudi Electricity Company**

### **Introduction**

This section will allow the researcher to examine and investigate the restructuring policy in Saudi Arabia, to find out if it constitutes a barrier which could hinder implementation of both restructuring and privatisation. The Saudi Government has been implementing restructuring on the SEC since 2000. The process was implemented directly without any preparatory procedures, such as commercialization or separating the company, which affected different areas in the enterprise. This process affected SEC, which suffered from different technical, operational, financial, employee and management problems.

Jamasb states that several of the countries that have implemented restructuring have had various purposes for proceeding with it:

During the past two decades, many developed, transition and developing countries have embarked on electricity sector reform. The recent trend towards electricity sector reforms is not the result of breakthroughs in economic theory. Rather, it reflects a general dissatisfaction with the performance of traditional organizations and regulation of the industry, and the desire to improve the efficiency of the sector [169].

### **History of the company**

The country's demand for electrical power for diverse uses across different sectors (industrial, residential, agricultural) of the economy has grown, as shown in Table 11.8.1. In the beginning Saudi Arabia had a fragmented system of electrical power generation (provided by several small companies). Then the Government decided to replace these small companies with the Saudi Consolidated Electricity Companies (SCECOs). They assigned to each company provision of electricity for a whole region of the Kingdom. These Companies were as follows:

- SCECO-East established in 1977, with capital of SR 5 billion.
- SCECO-South in 1979, with capital of SR 4 billion.
- SCECO-Central, with capital of SR 8 billion.
- SCECO-West, established in 1982, with capital of SR 8 billion.

Table 12.8.1 Electricity Generated and Sold Billion Kilo Watt-hours from 1969 to 2002 [ 177].

Years	1969	1974	1979	1984	1989	1994	1999	2000	2001	2002
Generated	1.8	4.3	18.9	40.3	64.9	93.9	114.6	126.2	133.8	144.7
Sold	1.7	3.8	17.4	44.5	59.0	85.9	105.6	114.2	123.0	128.6

To improve and strengthen the power industry, in 1998, the Council of Ministers issued Resolution Number 169 for restructuring the electricity sector, aiming to reform the financial condition of the sector and increase the participation of the private sector in the ownership, management and energy conservation of the sector. The resolution stated the following factors:

- Establishing a joint stock company called the Saudi Electric Company (SEC).
- Merging all the small local companies, as well as the electricity facilities owned by the General Electricity Corporation, into the SEC.
- The creation of an independent organization in the first year of establishing company's to review periodically the costs and tariffs of the power.
- Lastly, implementing liquidation of the General Electricity Corporation and development and execution of the liquidation plan, including the settlement of its liabilities, while preserving the full rights of its staff would be undertaken by a ministerial committee.

In 2000, the Minister of Commerce issued Resolution Number 2047, announcing the establishment of the Saudi Electric Company (SEC). The former president of the SEC described development of the company:

The electricity sector needed to be developed on a national rather than regional level, and continued development was required to make it more efficient. The 11 regional power companies — including the four Saudi Consolidated Electric Company (SCECO) heavyweights — form the key building block of a rationalized power sector. Soon there will be sufficient power generation capability for the whole region, and then a national grid that will link the country internally and internationally. SEC is now able to stand on its own, with the ability to survive economic difficulties, make a profit and take care of all its investments for future development in Saudi Arabia [178].



In May, 2003, electricity was made the responsibility of the Ministry of Water and Electricity.

### **Source of the problem**

As stated by the former president SEC, the enterprise suffered from several problems but after implementation of the restructuring and all the small companies had merged into one big company, SEC, was able to stand on its own. After six years of working under this structure, the company started to suffer from an array of problems (financial, technical, management, physical and others) all of which will be detailed in the following literature review:

- The president of the SEC board described SEC's failure: "Today, SEC is in the worse period of its company history. It is facing different barriers and obstacles for development and that could affect the development and investment in the country. It needs support through the use of different tools." He mentioned two points: first, SEC is working at full capacity without any standby capacity for emergencies or for any new development in the country. Second, if there is any expansion for any new project in SEC, it needs 30 - 42 months to finish the expansion [179]. This means if there are any problems or failure in the existing facilities, these will not be solved until this project is constructed after 32-42 months.
- The former president of the company emphasised SEC's problems: "It suffered from different problems, but there were continuous efforts to improve its performance. There were some studies related to restructuring the company, and one of the ideas was to separate the company into smaller companies,"[180]. This means the company would revert to being the smaller companies it was originally formed from. This emphasised that restructuring was not implemented according to professional studies, which was in agreement with the researcher's opinion. Al-Sagir resigned from SEC after he spent one year in the post, indicated SEC has several problems.
- Baker described the financial condition of SEC: "Since last year it has faced a shortage of financial resources. In their present condition no-one will provide any loans for them, especially since they spent SR 9,700 (\$2,586.67) million on operational activities, while they spent SR 11,500 (\$3,066.67) million on investment activities. This means the company has a shortage of cash,"[181]. He

concluded that no-one will benefit because all these problems will affect the investment environment and the country as a whole. All the executive managers and all the company managers should work towards restructuring of the company, because the public hope for the restructuring, to be assigned to a professional team.

- During a meeting with the Head of the Chamber of Commerce and local businessmen in the Eastern Province (after several failures and power blackouts) the former SEC Director stated that “SEC is facing a major challenge in the future because a huge amount of electricity will be required in the next few years. The situation of the SEC’s electricity-generating capacity is still critical, and all the failures and problems that occurred in summer 2006 could happen in summer 2007,”[182].

- SEC will face a significant challenge in the financing of the generation, transmission, distribution of the power to every city in the country, especially as Saudi Arabia needs a huge amount of power, as stated by Cordesman:

The country needs about \$120 billion for power generation projects over the next twenty years: with the annual demand growth for electricity in the Kingdom estimated at 4.5% to meet this demand, the country must increase its power generation capacity to 70,000 megawatts by the year 2020 — from 21,000 megawatts at present — at a cost of more than \$4.5 billion per year. However, the company does not have the capability to build or finance even part of these projects because of its existing situation [131].

In conclusion, all these studies emphasised that the restructuring process had not been implemented properly, and that had affected the performance and efficiency of SEC since implementation of the restructuring. The researcher summarized the company problems as follows: SEC had bureaucratic management layers created by a huge number of executives and general managers; these layers affected the performance and efficiency of the company and created delays in the decision-making process; the mismanagement created by these layers impacted on the technical, operational, employees and financial conditions, which in turn affected on restructuring and privatisation of SEC and may lead to the whole sector.

Implementation of the restructuring in SEC proceeded without consideration of the financial, technical and operational problems that could occur after restructuring (combined with the smaller companies operating under one huge



company with high capital). The vision of restructuring was unclear; the process impacted all areas of the company, as all the executives mentioned above.

### **The international standard of implementation of restructuring the electricity**

The relation between privatisation and restructuring are confirmed by Brown: “There is now significant experience around the world from which we can derive lessons that need to be learned. One of these lessons is that privatisation works well only where an appropriate restructuring framework exists. Regardless of reasons, an inadequate framework often creates barriers to attainment of many privatisation objectives”[183]. Brown’s paper emphasised the importance of implementing the restructuring process after studying and constructing a clear framework and assigning all the responsibilities.

Jamasb discussed the benefits from restructuring and methods of applying the process:

The reforms have sought to transform the SOE and centralized electricity sectors into decentralized, market-oriented industries with private sector participation, competition in generation and supply businesses, and regulation of the natural monopoly activities. In order for the decentralized industry to function, the reform and the regulatory design must establish appropriate structural, institutional, and operational framework. The main steps of a stylized reform are follows: Restructuring the sector; Establishing the regulatory authorities; Organizing the markets for generation; Regulating transmission and distribution networks; Private existing assets and promote new investment and; Allowing for cost-reflective electricity tariffs [169].

Weizsacker et al., described the experiences of several countries in liberalizing the sector: “Energy trading goes hand-in-hand with liberalization of the electricity sector, both in the United States of America and in Europe. Characterized by the unbundling of the functions of production, transport and distribution, liberalization created professions and markets in trading and brokering until then unknown in the energy sector,”[145]. Guasch and Spiller (1999) explained the experiences of Chile in reforming the electricity sector: “It started in 1978 and the law was implemented in a 1982. Privatisation followed gradually throughout the 1980s. While in 1978 there were only two integrated companies, today there are twenty-one distribution companies, and eleven generating companies in addition to the two integrated companies,”.

The first step that should be taken in liberalization of the power sector is restructuring, as the most above papers mention. Implementation of the restructuring allows for liberalization and separation of different services in the sector to small units. This opens the sector for investment to medium and large companies, increasing competition and quality in these fields and lowering prices. The presence of a regulator should be considered from the beginning of the process to manage several legislation matters and liberalization of the sector.

Preparing restructuring needs several steps, as mentioned by the OECD: Structural separation to promote competition in the competitive services in electricity, therefore involves some combination of the following approaches: Separation of generation from transmission/distribution; many countries used operational separation, such as Belgium and Italy, or structural separation, such as Spain and England; Separation of retailing/marketing/supply from transmission/distribution. This method is used in New Zealand and; Separation of distribution from transmission. [184]

The restructuring process needs preparation of a plan that should list all the steps required in the process such as restructuring the sector, establishing and releasing the electricity law, constructing the regulator organization and issuing legislation which will organize the sector and protect the Government, investors and customers. All these matters should be considered in implementation of any restructuring process to help in sequencing the process.

The process of restructuring should consider the following factors, as mentioned by several authors such as Jamasb and Newbery: Identifying the various business units according to production or market segment; Assessing the extent of the economic of scale existing at each stage of the production or service process to identify where effective competition is feasible; Restructuring the company into a set of profit units that are clearly delimited and whose financial results can be measured; Assessing the potential for market foreclosures and economic consequences; Decentralising management so that responsibility is clearly limited and not diffused; Implementing an incentive scheme based on those financial results, on a per-unit basis, and allowing each firm to claim residual rights and; Allowing for new (private) entrants to have access to existing services and infrastructure [169],[185].

Success of privatisation depends on several factors, as mentioned by Brown when discussing Argentina's experiences: "The entire generating sector was unbundled



and privatized into 38 different companies. A competitive market and regulatory structure were put in place contemporaneous with privatisation,”[183]. Restructuring could affect the performance of the company and possibly give worse results than when the sector or company was under government ownership. Argentina is a good example of one of the countries that succeeded in implementation of restructuring and privatisation on the electricity sector. Jamasb prepared a study on the method of implementation of restructuring and privatisation in the electricity in Argentina, summarized as shown in Table 12.8.2

Various lessons can be drawn from this study, such as: Implementation of restructuring is a lengthy procedure — Argentina spent five years on the process until it was fully implemented; This long period indicated there were different preparatory steps to be considered and taken before implementation of the restructuring and privatisation.; Restructuring was implemented in the fourth step, while privatisation was the last step; This emphasises that restructuring should not be implemented unless all the legal and legislative matters are already implemented. This makes the process clear for all the organizations and employees involved in the process, and they implemented the framework with different timing and phasing.

Each country implemented and followed the process according to the country’s condition, the sector and the enterprise, depending on their requirements. There are basic steps that should be taken in restructuring to ensure success in privatisation, such as introducing competition into the sector — this could be created by separating the sector into several services (e.g. in the electricity sector; generation, distribution and transmission). This method allows for the creation of three types of business or more in the sector, which will attract new investment and open the market for variety levels of contractors.

Comparing the experiences of Saudi Arabian and Argentina in implementing restructuring the researcher found the following:

SEC implemented the process before restructuring the sector; they implemented restructuring policy randomly without any preparatory steps through issuing a resolution in 2000 to combine the various large and small companies under SEC;

there was no restructuring framework guiding the company; in the later stages they established the electricity regulatory framework

Table 12.8.2 Sequence of Implementation of Restructuring and Privatisation in Electricity Sector in Argentina [169].

Step No.	Argentina's Experiences
1.	1989: corporatized the sector
2	1992: issued the Electricity Law
3	1992: established the regulatory framework
4	1992: implemented the restructuring
5	1992: provide incentive for regulation
6	Wholesale competition
7	1992-1993: implemented privatisation

The Argentinean policy started with the following steps:

- Corporatization of the sector by introducing some market techniques to the sector. This improves the physical appearance of the company in the market and makes it more tradable.
- Issuing the Electricity Law which makes all the electricity matters clear for all the parties involved in the process, such as employees, customers and investors; otherwise this sector could follow random procedures. There are different matters which could be covered in the law, e.g. pricing, competition, etc.
- Establishment of a regulatory framework for the sector in order to organize the market, protect the investors and customers and improve the relationship between the company and those who use their services.
- They then proceeded with restructuring of the sector.
- The final step was implementation of privatisation.

### **Conclusion of the case study**

The comparison between the SEC and the international experiences in implementation of the restructuring indicates that the company had failed in its application of the process. These studies indicated that the process needs preparatory studies, and steps should be implemented before the restructuring can be applied. This emphasised the SEC needs to prepare a new framework to implement the restructuring policy (as stated by one of the executive managers in



the company), otherwise the financial, technical, physical, management and other problems of the company will be increased, as their management have stated.

The above literature review indicates that the liberalization of the electricity sector is one of the major steps which should be implemented first; this would allow for implementation of the rest of the functions, such as competition. Implementation of the reform should go through different processes, starting from issuing laws, establishing a restructuring framework before applying structural separation of the enterprise, and ending with the implementation of privatisation.

After the researcher reviewed in the previous sections, he compared them with the process applied to SEC. All of this indicated that this policy affected different businesses in the company because it had not studied all the restructuring matters, and had not given enough thought to the financial, legal, management, operational and other conditions in the company, so the process was flawed and did not work efficiently.

The researcher presented this case study to show the effect of the restructuring policy on the electricity sector. This case study indicates how the restructuring policy created a barrier hindering the implementation of privatisation on SEC. Corrective actions could be applied to eliminate the company's problems. This could happen if the company constructed a framework or step-by-step guidelines for implementation of the restructuring policy.

## **11.9 Appendix I :Designing of the regulatory authority and its tasks**

Weakness of the legislation could have a broad impact, as emphasized by Parker and Kirk (2005): “Regulatory rules and conventions are often weak and under-developed. Many developing economies lack sound institutional structures to promote private entrepreneurship and competition, leading to disappointing economic results, even when policies that have ‘worked’ elsewhere, such as privatisation and market liberalization, are imported,”.

They indicated that designing the regulation should be strong and cover most of the legislation matters in order to prompt investor participation. The government should not establish large organizations to monitor a few regulatory tasks because it could create bureaucratic layers which could hinder the process. This could affect the other operations such as regulation, competition and privatisation.

Li (2005) described some of the tasks could be assigned to the regulator: “Each regulator’s authority and autonomy varies: however, in some countries, the regulator has broad authority over most regulatory issues. In others, the regulator has to share the regulatory responsibility with the Telecommunications Ministry and, in some cases, the operators,”. These papers provide an introduction to the complexity of designing or establishing the regulatory organization. Difficulties of designing the regulatory bodies were not limited to the developing countries but included developed countries. The process needs establishing of an ideal regulatory framework or organization to handle the process.

Designing the regulator for the utility and infrastructure projects should be different from the others because it includes other matters such as considering capping the prices, improving quality, eliminating the monopoly and liberalizing several services. They have to consider, in designing the regulator, determining a credible system of regulation; this would help the team and country in monitoring and managing the process. Each country should consider all these factors when establishing legislation for the regulator. Li indicated the regulatory responsibility could be assigned to the board and to a high authority than the board. This means the tasks of the regulator could be divided between different levels, such as very important and less important.



Erdogdu (2006) emphasized the importance of managing the regulation, which could take the process from economics into politics:

Regulation is itself an expensive activity and easily spreads from economics into politics, if not properly managed. There are also other more fundamental problems inherent in any regulatory situation, namely, information asymmetries, commitment issues, the possibility of regulatory capture and/or failure. Despite the fact that there are no easy escapes from all these problems, in industries with natural monopoly characteristics, the extension of competition requires regulation in order to be effective.

The purposes of designing and establishing the regulator should be stated clearly; Implementation of the process should be managed to avoid any interference with political matters and the government should show commitment to implementing the process. This indicates that establishing a regulation policy and regulatory organizations are not easy tasks and are interrelated with other legal matters and regulatory policies as well as with other parties such as investors and customers.

Designing the regulatory body should be prepared by a more knowledgeable team so no important information is omitted in the process that could lead to mismanagement of the process and delay liberalization and regulation of the services or sector; the impact is not limited to these items but could affect the economy of the country. They could avoid this problem from the beginning by listing and gathering all the required regulation information.

Some technical programmes are needed in the process that should be consider the designing of the regulation such as calculation of accurate information for forecasting company revenues and measuring service quality. For the regulator to work efficiently, the government should considering providing enough financial support and training for the team to allow them to practice their skills.

The availability of this information helps the management team and the government in organizing and managing the regulatory matter professionally, so each government should work on providing access to this information. Also selection of the team should be considered as part of the design of the regulator. Many countries established regulatory organizations in different sectors without any difficulty. The most important point is how these organizations work and the methods of designing their procedures. The regulation policy needs preparatory steps before proceeding in establishing regulatory organizations.

Most of the developed countries have spent time and money to improve their regulation by gathering the information regulates the utilities sector and trained their employees to help them in the speeding up of implementation of regulation. The success of privatisation and regulations needs the provision of human resources, operational and technical information; otherwise the process would face constraints.

The implementation of such a policy requires reviewing of all the legislators' matters in each organization and whether the law of the country has a relationship to the process. Some developed countries implemented regulation but their programme still has problems as mentioned by Newbery (2000) about the experiences of the United Kingdom: "It was designed to create an efficient system of regulation to enable publicly owned utilities to be transferred to private ownership, but it has been criticized for its lack of fairness,".

There are different types of regulators that could be designed, and each one has weaknesses and strengths. Guasch and Spiller (1999) mention this point, saying:

The process of designing regulatory institutions is whether there should be a single regulator or a commission. Each design has its strengths and weaknesses. There are tradeoffs that need to be evaluated in individual contexts. The designs of individual decision-makers are superior in terms of speed of decision making, accountability of decisions, minimizing resource demands and cost, and predictability of results.

This other factor should be studied by most of the developing countries before designing the regulator, especially as most of them do not need large commission organizations; they could design a single organization. Trotman (1997) considered the following points regarding establishing the regulatory organization: "The competition in the objective should be clear; There should be more clarity about the position of the regulator and the regulator's responsibilities and general agreement about the time scale for introducing competition; lastly, Caution for regulators is to avoid being drawn into increasingly detailed regulation,".

This study guided the researcher to the following: competition should be one of the main objectives for establishing the regulator; regulators' responsibilities should be clear to avoid any conflict internally or with other governmental organizations; avoiding unnecessary complexity in regulation matters. The Saudi Government realized the importance of establishing the regulator and there are



several matters that should be studied in the regulation. Saudi's *Privatisation Strategy* states that:

...the autonomy of the regulating agencies is one of the most important factors in guaranteeing the success of efforts to decide on issues involving rights, duties, and common interests, as well as enjoying the confidence of all parties involved in the sector, including the government, investors, employers, and consumers. These agencies shall have legal personality and shall enjoy both administrative and financial autonomy.

Each regulatory institution should specify the requirements and the task should be assigned to them. In the electricity sector, for example, Guasch and Spiller (1999) showed the experiences of Argentina, listing the following tasks:

Issue rules and regulations on safety, technical procedures and service access and quality; Enforce the regulatory framework; Prevent anticompetitive, monopolistic, discriminatory behaviour; Define the basis for the calculation of tariffs set in contracts; Publicise the general principle to ensure free access to services; Determine the basis and criteria for the assignment of concessions; Organize and implement the bidding, adjudication; Monitor respect of property rights, the environment, and public safety; Organize public hearings; Take to court relevant issues and impose sanctions; Publish information and advise generators; Issue an annual report and recommend actions when needed and; Collect information from transporters.

If governments take a decision to implement a privatisation programme, they have to study the requirements of the process, evaluate the study and involve all the parties related to the process. The design should cover all the fields and they have to be concerned about the success factors such as introducing competition and trading laws, etc. Autonomy of the regulatory agencies is one of the most important factors to help in the success of implementation of regulation in the privatisation programme, so each country should avoid interference in the programme from different parties in the public or private sector.

Implementation of privatisation on utilities requires preparation steps such as gathering information about the sector, educating the employees and customers and publishing and distributing documents to different government organizations. In terms of regulating the sector or the enterprise they have to perform the following tasks: enforce establishing the framework; establishing the criteria for evaluation of the provider of the services; preparing methods of estimating the prices, and; methods of reviewing the contracts.

Li (2005) added other tasks that should be consider in designing the regulator:



Setting network expansion targets, approving (and in some cases setting) tariffs (including interconnection charges), setting technical standards, licensing, arbitrating disputes among operators and users, allocating spectrum frequencies, and monitoring service quality, among others.

Designing regulation of the utilities is not an easy task and there should be awareness of different matters such as resolving disputes, licensing, setting charges, studying and setting the technical matters in the services. This puts pressure on the government to select more qualified and experienced people to handle these tasks. Some developing countries face a problem with designing the regulatory policy according to Parker and Kirk (2005): “Despite recognition of the importance of regulation, comparatively little consideration has been given to the design of institutional structures and regulatory instruments appropriate to the conditions and capacities that characterize low-income countries,”. The complexity of designing the regulation arises from different areas, as Kikeri et al (1992) state:

The main challenge is to design regulatory processes that, while limiting discretion, are compatible with the country’s institutional structure of government and with the legal and administrative tradition of the country. At the outset, existing legislation, as well as the legal status of the SOEs to be divested, must be analyzed to determine whether it allows privatisation and is compatible with the government’s objectives, or whether it needs to be amended. Laws may need to be enacted to abolish a monopoly, regulate or deregulate the particular sector, strengthen the country’s capital markets, authorize the transfer of the particular SOEs to the private sector, or organize the privatisation process itself.

Designing the regulation should study all the existing laws affecting on the process and eliminate all the problems that hinder implementation of privatisation and competition on these services and sectors. Implementation of regulation on a rushed basis could affect the investment environment, so they should give this matter adequate consideration before proceeding.

The above literature reviews indicate that regulatory design needs major efforts in investigating different matters related to regulations, such as type, quality and prices of the service, setting network expansion, setting and approving tariffs and technical standards, licensing, arbitrating disputes among operators, governments and users.

Most of the developing and developed countries established fully functionally regulatory organizations that help them in managing and monitoring the process,



while the less developed countries faced problems in planning, managing and implementing the regulations process. Determining reasonable requirements and objectives for implementing the regulation was very necessary. It needs the provision of many resources and coordination between different governmental organizations and sometimes private ones.

The process should deal with customer, investor and government requirements and their requirements should be covered as much as possible by visiting them, presenting the programme, advertising the content of the programme and gauging their opinions. The cooperation and participation of these parties is required for the success of the process, but this should not affect or delay the programme. In general, the policy should be associated with clear procedures and transparency. Designing of the regulator requires that attention is paid to certain aspects, as pointed out by Guasch and Spiller (1999):

In the design of a basic and detailed regulatory framework, institutions, the requirements for successful regulation are: Regulatory credibility; Clear rules for and limits to government and regulator discretion; Minimal opportunities for renegotiation; Maximum use of competition wherever feasible; An incentive-based regulatory framework, and; Appropriate antitrust legislation, well trained and well-compensated professionals, and effective enforcement

The regulatory authority should be independent from political interference from different parties in the Government. Saudi Arabia should avoid establishing a large regulatory organization for each sector because they have a shortage of qualified management in leading such organizations, but they could combine many sectors under one regulator until the investment in each sector develops and grows. They should design the regulatory process through establishing a plan and distributing the responsibilities between the regulator's employees.

Legislative matters are among the most difficult tasks and can be very expensive. The success of each country in establishing an independent regulatory organization in every sector depends on many factors such as method of implementing privatisation, selecting qualified employees, providing necessary and sufficient financial and information resources and the type of legal institutions that could be used. The required resources for implementation of the regulation could not be found in some developing countries and that could affect

the liberalization, privatisation, competition and regulation processes; on the other hand some of these countries have some of these resources but lack others.

During the establishing of the regulatory policy, governments should simplify the regulatory organizations and avoid making them complicated. In the first step they could establish a single organization with the essential requirements; this organization could handle the entire newly privatized sectors in the future. It could also be used in one or two services and sectors until the investment environment of these sectors settles down and the country has many companies competing to provide one service; then they could establish one regulator for each sector.

This idea could work if they combine all transportation sectors (aviation, rail, ports) or other sectors under one regulator. They have to collect information related to pricing, evaluation of the bids, methods of resolving disputes and developing methods of reviewing contracts. They could use some of the tools used by other countries in this field, such as benchmarking, price capping, etc.

The aim of the regulatory organizations was to establish and implement goals or rules that organize the relationship between the investors, government, and customers. They specify the quality, prices and area of coverage, and resolve disputes between them, for different services. There are different types of regulation, such as economic or financial (monitoring prices, controlling costs, etc.), social (public health, effects of the process on employment), environment (pollution, environmental protection), etc. The most important matter in a successful privatisation process is designing the tasks and responsibilities of the regulator and designing the legal framework.



## **12.10 Appendix J: History of regulators in Saudi Arabia and the Case Study**

### **History of regulators in Saudi Arabia**

The country had a long history in establishing independent regulators, starting with the financial and banking systems. The first regulatory agency, the Saudi Arabian Monetary Agency (SAMA), was established in 1952 in the financial sector. In the utilities and services sector the history goes back to 1953, when the Department of Civil Aviation was established, but at that time it was not a regulatory institute; it was working as one of the public enterprises, and recently the Government assigned the regulation of the aviation sector to them. Concerning this item, the Saudi Government mentioned in the Privatisation Strategy (Chapter Three, Section A, Item 2) that "...establishing the regulatory agencies is an integral part of the privatisation process, particularly in the public services sector."

The strategy mentioned three models for these agencies:

- A separate regulatory agency for each service in a single sector.
- A single regulating agency for each sector.
- A single regulating agency for a group of sectors.

The policy mentions these different types of regulatory authority could be used, but they only used one type, as the next section shows. The Government recently began their privatisation programme and constructed for each sector an independent organization to work as a regulatory agency. Some of these organizations were new, such as the CITC and Electricity and Co-generation Regulatory Authority (ECRA). However, the Government decided to change some of the enterprises tasks from being a provider of the services to a regulator (Civil Aviation, Rail Authority, etc.).

The Government planned to attract investors in different sectors by using different types of privatisation, such as leasing, contracting and operating. While there were regulators, the Government transferred them from service provider to regulator, where they faced a variety of constraints, such as lacking experience as regulators, overstaffing, lacking qualified employees, etc. This could affect all the sectors using this method.

This section investigates the history of the regulators in Saudi Arabia in the different sectors and utilities. This could show how this factor constitutes a barrier in the implementation of privatisation or liberalization of the economy. The researcher mentioned other regulators to show that the delay was not limited to utilities but that there were other sectors affected by the implementation of regulations. It excludes the telecommunication sector because the researcher has used that as a case study.

The privatisation strategy mentions that the Privatisation Committee will recommend the selection of the appropriate model upon completion of the study by the competent agencies. The researcher thought this is a reasonable decision to assign the task to these two organisations. There are several types of regulators in the country, as follows:

1. Regulators of the financial and banking sector: Saudi Arabian Monetary Agency (SAMA) and The Capital Market Authority (CMA). Neither SAMA nor CMA is included in the scope of this study but because they are part of the regulatory bodies, the researcher mentioned about them.
2. Transportation Sector:
  - Aviation Sector: The General Authority of Civil Aviation
  - Port Sector : The Saudi Port Authority
  - Railway Sector: The Saudi Railway Authority Commission started in 1948.
3. Regulation of the Utilities:
  - Electricity Sector: The Electricity & Co-generation Regulatory Authority.
  - Communication & Information Technology Commission (CITC).
4. Unregulated Sectors: Saudi Post, water sector, etc.
5. Other Regulators: There were other regulators not related to the utilities, but some of them are related to the investment environment in the country as follows:
  - The Saudi Arabian General Investment Authority (SAGIA)
  - The Saudi Organization for Industrial Estates and Technology Zones.

### **Commitment of the Government to implement regulation**

The Government's commitment to implement regulation could encourage the investors to participate especially in the utilities and services. The Government should consider liberalizing these utilities with implementation of regulation which eliminate the interference in various economic activities. They should



design and implement a very restrictive institutional arrangement which limits the Government and their employees in these enterprises and sectors.

The government role in implementation of regulation requires participation of all the sector and organization to work effectively. Each organization should have specific tasks, should participate effectively to avoid any delay and work independently without interference from decision-makers. Privatisation strategy listed some of the objectives:

Providing services to the citizens and investors in a timely and cost-efficient manner; Privatisation, particularly of investments that have monopolistic concession rights, may lead to increased prices and a reduction in the quality of services, because some enterprises (services) receive government subsidies prior to being privatized; As this is an extremely important issue, an independent regulatory agency should be established to deal with such matters.

The country has large investments in infrastructure projects, emphasising the importance of the commitment from the Government to liberalize and regulate these sectors. This will not be achieved unless they establish strong institutional systems with clear roles and responsibilities between all the organizations involved. These objectives indicated the Government's emphasis on implementing regulation, which could be one of the signs of the Government's commitment. In addition, the strategy added the necessary policies to achieve these objectives:

Establishment of an independent regulatory agency to deal with the social, regulatory, and supervisory aspects to protect the interests of consumers, such as the provision, quality, and cost of services; Establishment of a systematic method for determining the fees for services, taking into consideration their cost which will result in continuous provision of services and financing for the investments of the enterprises. The government may provide support when necessary.

Most of the developing countries prepared policies and programmes for privatisation and regulation; they mentioned a variety of objectives but when it was time for implementation of these policies most of their programmes did not reflect the prepared one. This could refer to many factors facing these programmes which create problems and barriers when implementing and monitoring these policies. These problems could refer to follows: Lack of regulatory framework; Lack of legislation dealing with privatisation methods such as BOT, BOO, there was no clear objective, etc.

All these procedures and efforts emphasise that the Saudi Government had the commitment to implement and establish regulations and regulatory organizations in different sectors. However, the country had some problems as follows:

- Slow implementation of the process associated with poor management.
- Lack of professional methods of pricing services and evaluation the bidders.
- Lack of an appropriate legislative and regulatory framework.
- Absence of knowledge on how to implement the regulatory framework.
- Lack of some regulations and laws that would increase liberalization.
- Lack of information about these enterprises.

All these factors constitute obstacles to the implementation of a successful regulation framework. The Government must make it a top priority to develop the process and rectify these factors by implementing clear frameworks. This reduces the state monopoly, encourages and provides long-term investment and attracts investors.

#### **Comments of the researcher on the regulators in Saudi Arabia**

The aim of establishing the regulation and the regulatory agencies on utilities was different, but in general most of them have several objectives such as organizing and monitoring these sectors; Improving quality and lowering prices; Reducing monopoly power and releasing the potentially competitive activities; Establishing the regulatory framework; Protecting the consumer and allowing for innovation in different companies; Resolving disputes and correcting market failures and lastly; Liberalizing the sector and attracting investors.

In addition there are other factors that could be included, such as managing, planning, implementing the rules, introducing competition and laws, while others implemented the process for monitoring and organizing liberalization of different sectors and services. Most of the regulators' objectives mentioned the introduction of a competition policy in different sectors, but most of these sectors, such as electricity, aviation, ports, are monopolized by one company.

In Section 8.8 the researcher investigated the Government procedures in establishing and managing various types of regulatory organizations for different services and sectors in the country. Through this investigation and review, the researcher found that some of the objectives had not been achieved, such as



increasing the competition among various companies. All of the sectors and services were monopolized by one enterprise, except in the mobile phone industry, where there was competition between two companies.

The competition policy was not in place and it was not implemented partly or fully in most of the sectors. The way is still long for different sectors to introduce competition between different enterprises or companies, or at least to use some incentives to implement the policy. This emphasised that the regulation policy in Saudi Arabia is exposed to risk because the programme was not associated with competition, and this allowed the monopolized company to control prices, quality, etc.

Competition is one of the main requirements and condition for the success of the privatisation process and could affect the process positively. All the previous literature indicated the strong relationship between privatisation and regulation: this emphasised the importance of associating privatisation with competition on different economic activities in the enterprise. Competition increases productivity, efficiency and reduces the prices between different providers. A lack of this factor leads the customers to lose faith in the future plans of the sector and in the regulatory organisation. The lack of competition kept prices high with low quality, as has happened now in Saudi Arabia, where most of the low and medium income customers complain about the high prices of electricity bills, as the Electricity and Cogeneration Regulatory Authority stated after studying the issue.

This guided the researcher to the following comments:

- Implementation of competition in different sectors needs liberalization and attracting the private sector to these sectors. This will not happen unless they eliminate the barriers and constraints in these sectors, and implement regulations which will encourage its participation.
- Failure of the ECRA to estimate the electricity bills could be the result of lacking qualified employees to estimate the prices; also, they did not follow any specific method to determine prices.
- The Saudi Government did not have a timeframe for implementation of the privatisation in the targeted sectors or for making the process open; also, it did not allow new companies to participate in utilities to increase competition, and that delayed introducing new providers.

They have to avoid the regulation risk by speeding up implementation of the competition policy. The Government implemented the regulators' strategy in a way which affected the privatisation process for the following reasons:

- Management teams of these regulators lacked the experience of implementation of the regulation because the Government transferred some of these enterprises from being providers of the service to being regulators; it would not work professionally because they lacked the knowledge and experience. Also, these organizations are overstaffed which reduces the efficiency and productivity.
- Implementing the process without establishing a clear framework.
- Establishing for each sector of an independent organization and working to full capacity will be costly, which will increase the expenses. If the Government becomes exposed to any financial problems these organizations could be affected.

The Strategy mentioned three options could be used in establishing the regulatory organizations. These options investigated and comments as follows:

- The first and the second options had most of the above comments, and implementation of one of them needed some conditions; for example, each sector needs more than one provider; could be used for a country with developed legislation; had a high number of experts in legislation and regulation.
- The third option was more suitable because there were similarities in the utilities' regulations in different matters; They could establish one organization with more professional and fully qualified staff; They could provide enough financial, management, technical, operational, and other resources; Utilization of this organization could be used for different sectors and services, especially in Saudi Arabia which is in the early stages of the implementation.
- Establishing an independent organization for each sector and service could increase the Government's budget deficit and bureaucracy and could create a weak legislation and regulation regime.

This indicated the Government failed to achieve the purpose of establishing efficient regulators. They have to evaluate the performance of different regulators and methods and procedures of implementation of the policy. The evaluation would guide them to the success and failure in the process. It could develop the process to make sure the specified objectives — or at least most of them — are



achieved. The management team should consider how these objectives could encourage and attract investors.

They should evaluate the performance of these organizations and prepare annual progress reports to track their procedures and efficiency as part of the regulatory policy in different sectors. It is useful for each government to look at some of the critical objectives of establishing regulators and to find the reasons for their failure. This helps in preparing the right framework and eliminating the failure points. In the next section the researcher investigated one of the regulators to find out if the programme has been delayed and whether that could constitute a barrier in the implementation of liberalization and privatisation of the sector.

### **Case Study: Communication & Information Technology Commission**

#### **Introduction**

The history of the regulation of the telecommunication sector goes back to 2001 when the Ministerial Committee on privatisation directed several studies on how to privatize the telecommunication sector. One of these included establishing regulator, as stated by Cordesman: “The work was to create a specialized body with administrative and financial autonomy to organize the telecommunication sector and provide the rules and regulation to ensure fair competition among private firms. It would also control digital and frequency management, monitor the quality of services and set goals for the overall development of the national system,”[131]. In 2001 they established the Saudi Communications Commission (SCC) according to the Council of Ministers Decision Number (74). In 2003, the name was changed to Communications and Information Technology Commission.

In the next step the Government started to liberalize the sector: they released 30% of the shares of STC in 2003. In 2004, the Ministers Council awarded the second GSM mobile telephone licence to Etihad Etisalat Company, a consortium led by the Etisalat Company (United Arab Emirates Company) and a group of Saudi businessmen. This consortium submitted a bid of \$3.25 billion for the licence, the highest bid among the six competing consortia, and their bids were released in July 2004. Etihad was obliged to sell 20% of its stock to the public in an IPO. The IPO of Etihad Etisalat, which began on 16 October 2004, was the largest IPO in Saudi history, attracting \$13.6 billion. Initially, twenty million shares were

offered at \$13.3 each, totaling \$266 million. More than 4 million applications were received, resulting in a 51-fold oversubscription.

The next stage in the liberalization the telecommunication industry was planned for 2006, when the Government opened the second licence for landlines (the first one owned by the STC) and the third generation of mobile phone services (the first one owned by STC and the second by Etisalat); up to mid-2007 none of them had been released.

### **The aims and responsibilities of the CITC**

The Saudi Government specified several aims for the CITC such as introducing competition into the telecommunication sector and bringing the private capital by attracting them to the market and to several services (e.g. GSM, data and VSAT licences) and supervising and monitoring the whole process. CITC had the responsibility for releasing the licences for these services. CITC tasks included regulating other services e.g. telephone, internet services and other media as well as attracting the private sector to service information technology services.

The CITC board is headed by the Minister of Communications and Information Technology, the Governor of the CITC and the Deputy Chairman of the Board; there are six members of the board. The Board has final approval on all licences granted by the Commission and determines all fees and charges. A Commissioner acts as a Deputy Chairman for the Board. The Board meets at least once every three months to review ongoing activities and is chaired by the Minister. The structure of Commission is composed of a Governor, Deputies, administrative staff and technical staff. To achieve their objectives the Commission used some consultants and specialist agencies, academic institutions and technical organizations.

The Commission Governor handles: implementation of all the resolutions issued by the Board of the Commission; proposing the budget; managing the staff; monitoring of the implementation; representing the Commission to different governmental organizations. His tasks included issuing periodical reports about conditions of the work (e.g. achievements, activities, future plans and programmes).

### **Comments on the Commission Board**



There are some comments concerning the commission board tasks as follows:

- The telecommunication industry is large and the Saudi market is one of the fastest growing market and novices at implementing privatisation. This emphasises that the market needs a lot of study related to organizing, liberalizing and regulating the market.
- These studies should include methods of liberalization of the sector, introducing competition and attracting investors to the sector. All these studies need approval before being released, but the Commission board meets every three months. The researcher thought that meetings of the board take longer than they should and the meeting times were issued without studying the conditions and requirements of the market in the future, which could create a delay in releasing these studies.
- They have to review the policy and determine the proper time for the board meeting. The new time should be specified after evaluating the volume of the work needed to perform a variety of tasks, such as issuing new bidding, methods of liberalizing the sector, etc.
- The policy did not mention whether the Governor has the authority to approve any new regulations or release any contract. This could create unnecessary bureaucracy and delay in performing this work. The Chairman could give the Governor some responsibilities, such as approving some of the regulations and policies; this would speed up the process and increasing the flexibility.
- The Commission board consists of eight members including the Chairman (Minister of the Communication) — its structure was not clear; it merely stated that the commission consists of the governor, deputy, management staff and technicians which did not allow the researcher to evaluate their procedures in performing different administrative works.
- Methods of handling of different tasks and sequences of the process were not clear and did not give more detail about the organizations or how they perform their tasks. This emphasised the fact that the Commission needs to work on establishing a full structure and method for performing their tasks, otherwise this could impact on a variety of tasks, leading them to work randomly and delaying implementation of the regulation.

- The Commission need some discipline in areas such as marketing, planning, economics, contract administration, etc. This permits the Commission to perform their tasks and monitor them professionally and allows them to produce good value studies with a minimum of mistakes. The Commission, in lacking such units, could impact on the liberalization, regulation and development of the process. They have to add such units to help them in performing their tasks. There are other units which should be added, such as evaluation, human, research, etc.
- Most of the tasks were assigned to the Governor; this could be one of the reasons affecting the whole process and causing it to take longer than necessary. This increases the bureaucracy in performing the tasks; the Governor should decentralize all the tasks, allowing the employees to participate in different works.

#### **Source of the problem**

This section discusses some of the matters related to regulation of the Saudi telecommunication market by CITC. This allowed ascertaining whether or not the regulator constitutes a barrier for implementation of privatisation. This factor could be one of the major reasons delaying implementation of privatisation in this sector. After reviewing the CITC policy in implementation of liberalizing and regulating of the sector, and the following comments founded:

First, the policy assigned to the Minister of Communication the following responsibilities: Making the general policies, plans and development of the programme; Submitting applications for licences and granting licences; Representing the Government in domestic, regional and international bodies in this sector; Delegating such representation to the Commission and other parties and; finally, approving the basis, principles and conditions relating to the universal services and the universal access as proposed by the Commission.

Various developing countries' experiences in implementing regulations were investigated, in order to compare their experience with the CITC. This allowed to establish the types of the tasks that could be assigned to the Minister. Researcher found some tasks can be added to the Minister's responsibility summarized as: Evaluating and overseeing the regulatory framework and their performance; Translating general government policy into sector policy; Establishing controls in the presence of real national security concerns; Translating the sector policy into a regulatory framework and unbundling choices; Approving the capital expenditure;



Determining types of the subsidies to customers in case of failure, and;  
Determining and approving the regulatory budget.

From of the above list, it was found the minister's responsibilities are lacking in some very important areas, such as evaluating the regulatory framework; this allows him: (i) to get a general view about the success and failure of the organization, the volume of the investment the organization attracts and the types of barrier facing the organization. (ii) translate the general government policy to the sector and to the market; translating could happen through various methods, such as making sure all the specified objectives are achieved (partly or fully), (iii) translate the policy to the public to make them more involved in the telecommunication market, etc. All the above tasks constitute major factors in the success of managing and monitoring the regulatory works.

The CITC's responsibilities were also investigated — they handle the following: Providing the telecommunication services at reasonable prices; Ensuring the provision of access to the public telecommunications; Creating competition in different fields of telecommunications services; Making the process more clear and transparent; Creating an environment for the success of the telecommunications; Safeguarding the public; Securing the telecommunications network; Developing and transferring the technology to the sector and to the market; Making sure there is effective and interference-free usage of frequencies and; implementing principles of equality and non-discrimination.

There are other responsibilities that should be assigned to the Commission, such as: Issuing and enforcing licences and concessions; Setting prices, fees and access terms in the absence of competition and monitoring compliance; Monitoring financial viability of operators; Setting quality of service standards and monitoring compliance; Resetting prices and access terms at the end of the review period; Arbitrating in disputes between different operators and between the provider or operators and consumers; Collecting information on the costs and earnings of regulated sector companies, and; Providing information and advice to the Ministry and information to the general public.

Additional responsibilities which could be assigned to the Commission include: Frequency allocation; Establishing and managing a national numbering plan;

Interconnection regulation; Specifying universal access conditions; Protecting consumer rights. All these responsibilities constitute major tasks and should be assigned to the Commission: omitting such tasks could affect the telecommunication market, especially in the long run when there are several providers for each service.

Third, Al-Tuwaijri, discussing the second landline telephone and the third mobile licences, states: "First, the second landline telephone was to be issued toward the end of 2006 and the third mobile licence was also likely be issued during the third quarter of 2006,"[204]. All these licences were not implemented according to the dates mentioned by Al-Tuwaijri. None of these licences were released by the end of 2007. The Commission could have caused this delay, and the researcher investigated this further as shown below. The Commission released several advertisements relating to these licences that explained the delay as follows:

- The first advertisement was related to the criteria and conditions of the award of licences for the provision of fixed and mobile services. CITC announced they were working on finalizing the review and analysis of the comments received from a number of interested parties. In consequence, they also are defining the regulatory requirements and the related criteria and conditions for award of licences for the provision of fixed and mobile services. The Commission will communicate, on appropriate national and international media, the timetable for obtaining the documents outlining the criteria and conditions for the licences. Then they invited all interested parties.

- Secondly, they advertised on 19 August 2006 that they had carried out an extensive review and analysis of the public consultation feedback:

Taking into account the extensive feedback received from the public consultations, the CITC has developed the required regulatory framework and associated policies along with the application for licensing of fixed and mobile services. However, owing to the unavailability of essential information and inputs that are required for the licensing process, including the details of availability of the necessary spectrum, they will not be able to finalize the fixed and mobile request for applications as per the previously mentioned schedule. They will announce the updates on the fixed and mobile licensing project on September 30<sup>th</sup>, 2006.

- At the end of August 2006 they carried out an extensive review and analysis of the Public Consultations feedback:



The CITC is in discussion with the concerned government bodies to address the issues related to commercial provisioning fees, percentage of Initial Public Offering and Spectrum availability. The associated Regulatory Framework and Request for Application (RFA) is being updated accordingly. An update on the licensing process will be available by 30<sup>th</sup> September, 2006.

- Then on 11<sup>th</sup> September 2006, they announced a new Public Consultation Document, *The final proposal of the National Frequency Plan*:

They concluded the development of the proposed National Frequency Plan (NFP), which will assure the using of the frequency spectrum in an effective manner and meets the current and future needs for all spectrum users. To achieve the CITC mission on clarity, transparency, equality and non discrimination and to solicit opinion of interested parties, they invite interested parties to participate and provide relevant documents before 3:00PM (Riyadh time) on Saturday, November 4<sup>th</sup> 2006.

- On 30<sup>th</sup> September 2006, CITC announced they will publish the *Regulatory Framework* and the *Request for Application* documents for Licensing of Public Fixed Services by no later than 15<sup>th</sup> October, 2006:

With regard to the publication of the “Request for Application” documents for Licensing of Public Mobile Services, the CITC is in discussions with the concerned government bodies to address spectrum availability. An update will be announced at the earliest possible date.

- After all these announcements and preparation, the land and mobile licences had not been released by end of the third quarter of 2007.

Fourth, the commission employed some of its senior management who had worked previously in STC. One of the main conditions for success of implementation of the regulation is that the employees of the regulator should not have any relation with any of the service providers. This could make investors worried about participation in the market because the process could not be associated with full transparency during implementation of bidding, competition, contracts and different policies. Also, this makes implementation of the regulation process difficult. Lastly, selecting employees from the STC emphasises that they were depending on employees lacking experience in legislation. This could affect their work, especially if the country has a couple of providers in different fields.

Investigating the experience of other countries that have implemented regulations and privatisation guided the researcher to the various comments on CITC works:

- Assigning of the responsibilities was not clear. Therefore CITC needs to improve their methods of managing and planning several works.
- Liberalizing the telecommunication sector involves lengthy procedures causing the process to move slowly.
- There was a shortage of necessary information on how the regulation process should be implemented.
- Most of the legislation and regulations were weak and implementation of the process was done without a framework.
- The process needs preparation and this set of activities should be completed before they start. This was clear when they were trying to release the second landline and third mobile licences.
- Delaying the process could be linked to the employees of the Commission lacking knowledge and training.
- This is the first experience for the Government in transferring some of the services in telecommunication sector from the public to the private sector, so all the employees involved in the process were afraid to take risks in the process; thus the programme is moving slowly.

In conclusion, generally the Commission handled the telecommunication sector well, and there was a major effort to monitor, organize, establish and develop the regulations, but the process moved very slowly. Different activities were delayed as shown in the second and third licence for the fixed lines and mobiles respectively. These licences were delayed from 2006 to 2007, and there were problems with the spectrum wave which have not been solved. In addition, the telecommunication prices in Saudi Arabia, compared with those in other Gulf States, are higher because the market is lacking competition and it is dominated by a limited number of companies, so prices have remained high; there is no appropriate method for pricing. These factors affected the liberalization and privatisation of the market.

The process is complex and it needs different efforts from several departments in the CITC and other governmental organizations otherwise all of these reasons collectively or individually could constitute a barrier in implementation of the regulation, privatisation and liberalization of this sector. The researcher selected the telecommunication sector because it is more developed than the other sectors



and all these problems were found in this sector. Therefore, what about other sectors, such as electricity, aviation, rails, ports, water, etc. which are less developed?

### **Recommendations of the researcher**

All these problems indicated that the Commission should play more efficient and active roles in regulating and developing the investment environment in telecommunications and information sector. It could design the regulatory activities and ensure that enough responsibilities are covered. Reviewing and evaluating the policies and tasks would minimize interference and conflicts in the future between the investors, government and customers. It could consult or hire specialized officers and assign to them such tasks; this would help in managing and organizing different legal and legislation works.

The CTIC should apply some modern techniques in monitoring the prices and quality policies of the provider, at the same time putting some restrictions on the regulator's employee, if they are considering applying these developments that could affect positively on a huge layer of consumers and the investment environment.

They could avoid this by selecting the more experienced and qualified employees and support them in the monitoring and managing their work, and thus eliminate the Government's interference in the various tasks of the regulator's work. They should consider that there are different ways for pricing; it should select the proper one with reasonable profit and benefits for these companies, so it can protect customers and avoid harming them by implementing some restrictions on prices. Also, it could assign to the Privatisation Commission the supervision of the price rates, level of quality, etc.

The above literature shows that the Commission lacked experience in planning and managing implementation of the regulation. It could review the experience of other countries in this field, methods of implementation of various regulation matters and compare that with the Saudi experience. They have to evaluate their performance, productivity, and other requirements.

After investigating these they could list their weaknesses and the type of work that needs to be studied or reviewed. It could review the Commission's

organization and responsibilities and then implement new policies or strategies if needed using various management techniques, such as distributing the responsibilities between different departments in the organization and establishing additional teams to handle different activities in the commission (regulation, competition, pricing, planning, development, research, etc.).

These departments could be introduced according to the Commission requirements and all of them should work under the Commission's management. This helps in concentrating on each matter of the process independently, which allows for liberalizing the market and increasing the competition between the providers. At the same time it increases the investment and revenues through distributing the telecommunication sector into small business groups. The telecommunication sector in Saudi Arabia is huge, and this allows it to utilize different potential factors in the market. It could assign a team for preparing various types of studies and innovations for the market.

They could benefit from the marketing techniques of different countries and attract investors to this sector. This is not limited to the telecommunication sector: it could be applied to the other sectors. They could follow the same procedures but they should place emphasis on introducing competition and reducing the public monopolies as the main aim of implementing privatisation in these sectors. In conclusion, the researcher recommends that the Government should review the regulation policies and eliminate the barriers (information, assigning responsibilities, management, coordination, employees) that constitute constraints on the privatisation and regulation process.

It should deal with each barrier seriously by applying several methods to improve the investment environment, eliminate the barriers in every sector and open the market for competition by attracting more than one provider — all these techniques could improve the sector. The review should be associated with transparency, and checks should be made to establish whether all these organizations are needed and what other alternatives could be applied to improve their performance and productivity. In the next section the researcher proposes the ideal design for establishing the regulatory organization.



### 12.11 Appendix K: Managers' opinions about implementation of regulation in Saudi Arabia

In the analysis of the questionnaire, the researcher used Regulation of the Privatisation Programme Questions (RPPQ). Implementation of the privatisation policy has a very strong relation with regulation and this matter could create delay during the process and sometimes could lead to barriers. This section takes the managers opinions regarding implementation of the regulation policy and whether it creates a barrier?

#### ☒ Regulators could constitute a barrier for implementing privatisation.

Regulation is one of matters affecting privatisation policy as mentioned previously in Section 7.3. This emphasises that the success of the process depends on the method of implementation of the regulations. It is very important for the success of privatisation to maintain a strong relationship with regulation. Question RPPQ1 took managers' opinions concerning whether the regulators organizations constitute a barrier in implementation of the process. It gave them five options, from "strongly agree" to "strongly disagree" as shown in Figure 11.11.1.

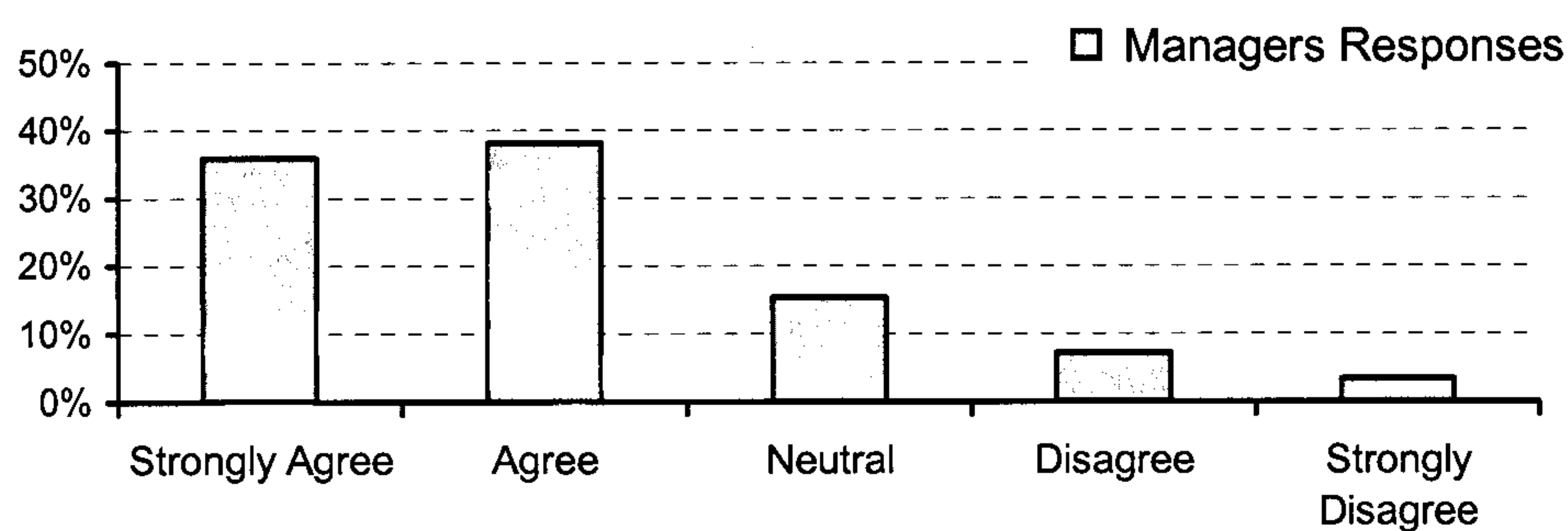


Figure 11.11.1 Managers' responses regarding whether the regulator could constitute a barrier.

- 35.94% and 38.18% of the managers respectively strongly agreed and agreed that regulators constitute barriers in the privatisation programme. 15.30% of them were not decided between yes or no. 7.16% disagreed and 3.35% strongly disagreed, with 10.51% of the managers disagreeing that the regulators organizations constitute a barrier. The result of the analysis indicated that most of them agreed that these organizations constitute barriers in the process.

**☒ Factors causing a delay in implementation of the regulators**

There were financial, legislation, etc. factors which affected negatively or positively the implementation of the regulations works. In questions (RPPQ2-RPPQ6) the researcher listed five factors in different fields which could cause a delay in implementation of the regulation in Saudi Arabia, as shown in Table 11.11.1 Managers were asked to rank these factors from “very important” to “not important at all”, and they were allowed to select more than one.

Table 11.11.1 Managers’ responses to the factors that could cause a delay in implementation of the regulations.

Question Number	Options	Managers’ Responses %				
		Very Important	Important	Neutral	Not Important	Not Important at All
RPPQ2	Regulator did not proceed in liberalization	34.95	38.47	11.34	8.56	6.70
RPPQ3	Lack of qualified employees	42.33	36.26	15.76	2.72	2.45
RPPQ4	Weakness in regulators’ institutions	48.20	35.37	11.19	3.44	1.96
RPPQ5	Lack of cooperation of other organizations	30.22	32.23	21.35	9.77	6.43
RPPQ6	Interference from decision-makers	28.58	25.57	23.25	13.44	9.45

- First, most of the managers gave the third option (weakness in regulation policy and in regulators’ institutions) the highest score, with 48.20% and 35.37% selecting respectively “very important” and “important”. The second option concerning lack of qualified employees was next, scoring 42.33% for “very important”, 36.26% “important” and 15.76% “neutral”. They could notice that liberalization of different sectors and utilities was moving slowly. Therefore they agreed to rank “the regulator did not proceed in implementation of liberalization of different sectors” as one of the factors causing a delay.



- Managers chose lack of cooperation of other organizations as a fourth cause of delay. This factor was chosen by 30.22% as “very important” and 32.23% as “important”. Cooperation of other organizations in different sectors helps in the success of privatisation and regulation. Lastly, managers selected interference of different government bodies in the regulatory works as having the least effect.
- The researcher rearranged the options after evaluation, as follows:
  1. Weakness of the legalisation in the country.
  2. Lack of qualified employees.
  3. The authority did not proceed in liberalizing the sector.
  4. Lack of cooperation from other organizations.
  5. Interference from the decision makers.

**☒ Implementing evaluation of the existing regulators’ performance**

Question (RPPQ7) asked about the managers’ agreement on preparing evaluation for the existing regulators; this allows the Government to realize their performance. The managers were given five options, ranging from “strongly agree” to “strongly disagree”. Their responses regarding evaluation of the existing regulators are shown in Figure 11.11.2

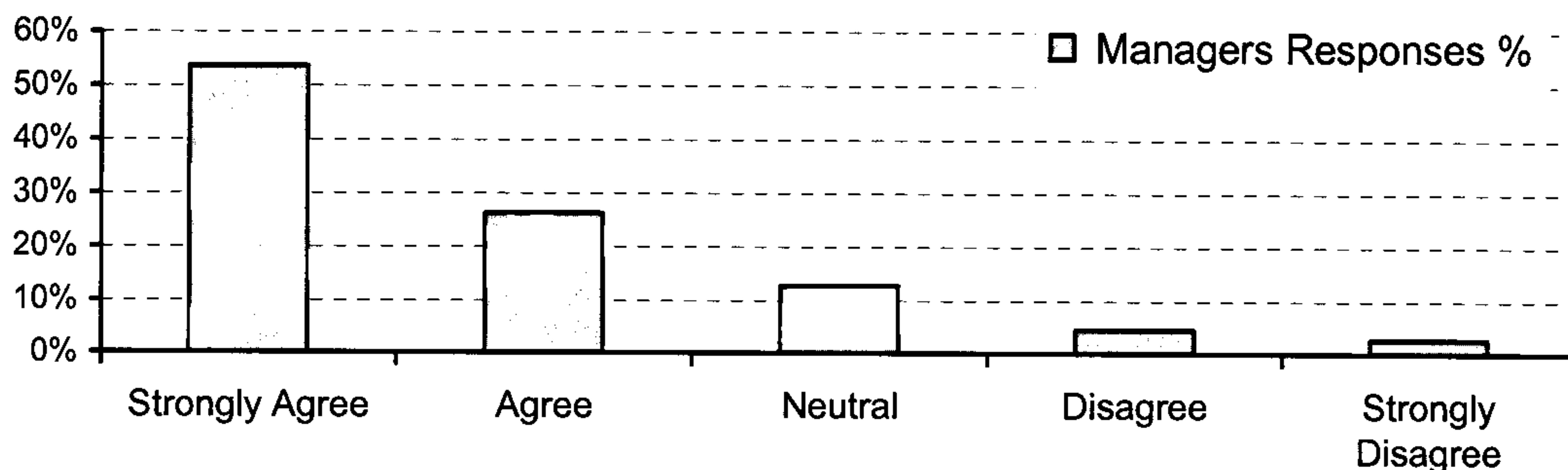


Figure 11.11.2 Managers’ responses regarding evaluation of the existing regulators.

- Most of the managers strongly agreed or agreed, with 53.65% and 26.35% respectively, that the Government should evaluate the regulators’ performance. Evaluation of any programme or an organization allows the employees to evaluate their procedures in performing different tasks, and they could develop or change some of their procedures which affected their productivity and improve the efficiency. 12.70% of them did not decide between yes or no. Finally 4.65% and 2.65% of the managers disagreed and strongly disagreed about evaluating the

performance of the regulators. The researcher did not know why these managers refused to evaluate these organizations.

**☒ Effects of increasing number of regulators on privatisation process**

There were sectors which had been affected by the regulators' work or there were other sectors which did not have a regulator, such as water, post, railways, etc. These could be affected in the future if the Government were to establish regulators. This question adopted to gauge the impact of the regulators on the privatisation. It allowed to know the advantages or disadvantages that related to the regulators. There were some major effects which could be created by the existing or the new regulators'. They were given five options on the effects of increasing the number of regulators on the process, as shown in Table 11.11.1, and they were asked to rank them from "very important" to "not important at all".

Table 11.11.2 Managers' responses regarding the effects of increasing number of regulators on privatisation.

Question Number	Options	Managers' Responses %				
		Very Important	Important	Neutral	Not Important	Not Important at All
RPPQ8	Increase speed of implementation	15.48	18.85	21.75	24.45	18.75
RPPQ9	Create barriers on implementation liberalization	33.7	35.3	14.6	6.6	10.2
RPPQ10	Increase liberalization and competition	21.2	23.8	20.6	14.7	19.7
RPPQ11	Causing slow implementation	39.4	34.3	8.2	12.2	5.9
RPPQ12	Increasing management layers	43.1	36.6	12.5	4.1	4.1

- Managers ranked increasing the management layers as the first effect on the privatisation with 43.1%, 36.6% and 12.5% respectively, "very important",



“important” and “neutral”. Secondly, they ranked causing slow implementation with 39.4% “very important” and 34.3% “important”. Managers ranked creating barriers on implementation of the privatisation as the third position, with 33.7% “very important” and 35.3% “important”. They thought the regulators could increase liberalization and competition, with 21.2% and 23.8% respectively, “very important” and “important”. Lastly, managers agreed with the regulators increasing speed of implementation with 15.40% “very important” and 18.85% “important”.

- The options have been rearranged as follows:

1. Increasing management layers.
2. Causing slow implementation.
3. Creating barriers on implementation.
4. Increasing liberalization and competition.
5. Increasing speed of implementation.

#### **☒ Ways of improving the regulators**

This question adopted different suggestions as shown in Table 11.11.3. They could adopt one of them or all to improve the performance of the regulators, increasing the productivity and the regulation of policies in different sectors. It gave them five options which could improve the regulators’ organizations, and it allowed them to select one or more, from “very important” to “not important at all”.

- First, 54.22% chose “very important” and 32.24% “important”; they picked a combination of different sectors under one regulator. They ranked applying change in management techniques as a second alternative, with 51.43% and 33.54% respectively, “very important” and “important”. Third, introducing some techniques in pricing, quality, etc., earned 45.13% “very important” and 34.33% “important”. Providing some support in other fields got 23.25% and 27.34% respectively for “very important” and “important”. Lastly, they agreed on hiring consulting offices as the last option which could be implemented. This could help in improving the regulator’s productivity and quality, and in training their employees.

Table 11.11.3 Managers' responses regarding the options which could improve the regulators.

Question Number	Options	Managers Responses %				
		Very Important	Important	Neutral	Not Important	Not Important at all
RPPQ13	Combine variety of sectors under one regulator.	54.22	32.24	8.15	5.39	0.00
PPQ14	Hiring consulting offices	16.14	27.23	22.12	23.55	10.30
RPPQ15	Applying change management technique.	51.43	33.54	9.33	5.70	0.00
RPPQ16	Introducing some techniques e.g. pricing,	45.13	34.33	8.05	7.67	4.82
RPPQ16	Providing some support in other fields.	23.25	27.34	21.34	14.76	13.31

- The options were rearranged as follows:
  1. Combining different sectors under one regulator.
  2. Applying some change in management techniques.
  3. Introducing some techniques in pricing, quality, etc.
  4. Providing some support in other fields.
  5. Hiring consulting offices.

#### **Comments of the researcher on the managers' assessment**

The managers agreed regulations created barriers on implementation of privatisation which would impact on the liberalization of different economic activities in the country. Their opinions agreed with the literature review and the case study which emphasised the researcher's findings. If the Government wants to avoid these effects, before implementing privatisation it should work to finalize the legislation and regulation policy. It should review all the existing legislation, use the appropriate one and make sure it is simple, understandable, clear and flexible.

This eliminates the barrier and reduces the delay in the process, but before implementing the regulations, they should make sure there are no other existing



regulations or legislation conflicting with the new one and that all the relevant matters are covered. The managers agreed there were factors which affected implementation of the regulation policy. The first factor was the weakness in the legislation of the country — this was in agreement with other studies on privatisation in Saudi Arabia. The Government must make sure that the legislation would protect the customers, investors and government, and provide good prices and quality services.

The regulation work depends on the selection of qualified and professional employees. Thus before selecting the employees they have to specify criteria for each job. Their selection should involve studying the employees' knowledge and experience in handling the regulatory organization. They should handle the full responsibilities for implementation of the regulation task and play a major role in monitoring and managing the process. There were different tasks which should be assigned to them, such as establishing the regulator, preparing the legalisation and legal matters, strength of the legal and the legalisation condition of the country, etc. Some governments put some restrictions on the regulators and do not give them the authority to liberalize the economy.

Most of them made the process longer than it should be and followed centralized procedures. For improving the investment environment the government should give them more authority to search for ways to liberalize these sectors for different types of investment. Regulation has a relation with different organizations, so before establishing the regulation and regulator policy, regulators need to coordinate their work with these organizations such as the Ministry of Justice, etc.

Cooperation among these organizations is very important and helps the regulators in performing their work and issuing and developing the legislation. Different types of cooperation could be used to support these regulators in performing their tasks (e.g. ensuring accessibility to the existing legal matters and legislation in these organizations).

Privatisation and all the work associated with the process such as regulation, liberalization and competition failed as a result of interference of different bodies in the government. This factor is one of the major problems hindering

implementation of the privatisation in most of the developing countries. In Saudi Arabia this factor is not a major one; there is no political conflict and the country is stable, but there are bureaucratic layers in finishing and implementing different tasks.

Evaluation of the performance of the regulators should be applied to find out if these organizations achieved their goals. This method is one of the management techniques which could be used to measure productivity, success and failure factors, types of the problems and solutions that could be applied, etc. This process should include the customers' opinions.

They have to select more knowledgeable people because most of them did not have any idea about the regulators' responsibilities, such as liberalization of the sector, reviewing the prices and improving quality of the service, implementing different regulation, etc. This method allowed the regulators to improve their performance, develop their procedures and prepare some solutions. Agreement of the managers to evaluate the regulators' performance could be an incentive for the government to proceed with the process. They agreed that the increasing number of the regulators could affect implementation of the privatisation. The effects could be negative or positive on the privatisation as follows:

- Increasing the management layers: This factor could be created by one of the reasons, such as the management team lacked experience; They were using old management techniques in performing the tasks; Assigning most of the tasks to the senior management or to the Governor and; Increasing the number of employees with a small number of tasks.

All these reasons should be studied carefully to make sure there were no such factors that could have an effect on the management team work. Before proceeding and applying some regulation matters they should investigate to see if there are such management problems. Hiring a consulting office could be one of the solutions which could be considered to reduce the management problems. Applying these changes should not be implemented randomly — a timetable should be prepared for them.

- The second factor that could have an effect was that increasing the number of regulators could cause slow implementation of the regulation; this could be



eliminated by reducing the number of regulators and reducing some problems in the management.

- The third factor these organizations could create is barriers to implementation. They could study procedures of implementation of regulation and list all the barriers that could be encountered. The problems could be created by the following factors: Applying certain laws and legislation systems could not be achieved; Asking for requirements which could not be achieved; Governments trying to sell licenses for various services to the private sector at a very high price; Processing of bidding documents taking longer than it should; Not enough information provided; Lack of a framework, and; No clear strategy for implementation of the process.

The last two advantages that could be achieved by these organizations were increasing liberalization and competition and speed of the implementation. The last two factors are improving the investment environment in the country and attracting more investors; therefore each government should work on the last two factors. These two factors can be achieved through applying some techniques such as designing a framework for implementation. The framework should include all the related matters such as legislation, customers' matters, etc. They have to train the employees in some techniques before proceeding. This could help them in the process, in assigning and distributing all the tasks between different departments in the organization and selecting more experienced management and employees.

The managers agreed on the ways which could improve the regulators, as follows:

1. Combining different sectors under one organization. This factor could help effectively if different sectors or services were working under one regulator. This type is one of types mentioned in the privatisation strategy in Saudi Arabia. It could regulate different services under one sector. They could combine three regulators under one, eliminating the similarity in their activities and combining them in one organization. This will be helpful in utilizing the organization's resources efficiently, saving money, cutting administration and shortening the time needed for the process.

2. The Government could combine several services under one regulator; when these sectors stabilized their business and there were several providers, they could

start to expand their business by establishing independent regulators for each sector. This option could work for Saudi Arabia, especially since it is new to implementation of privatisation and regulations for different sectors.

3. Changing the management implemented by different developing countries is one of the major factors which would help them in improving different sectors and services. Before implementation of this technique, and to make it easy and clear, they must study their requirements and specify the types of the managers required, otherwise the problem will continue. They should prepare job descriptions for all the senior management and their tasks in the organization.

4. Introducing some modern techniques on regulatory tasks could help in improving the regulator's productivity and efficiency. Study of different markets is required to determine the types of techniques that could be implemented. It could be helpful if these were implemented by professional management, otherwise the results could be poor.

5. Providing support to these organizations, while studying what type of support could be provided. There are different ways and types of support, such as financial, technical, management, human resources, training, etc., which could be provided to each regulator. This type of support cannot be applied unless each regulator investigates and checks the problems and barriers before applying different types of support. Supporting the regulators should be one of the Government's priorities and it will have to implement different programmes to support them, such as training the employees, providing financial and technical assistance, etc.

6. The regulators should start by evaluating their procedures in implementation of the process, so they have to prepare criteria for the type of evaluation that could be applied. These criteria could cover the effect of liberalization on the services, productivity, performance, etc. Their study should conclude with some recommendations regarding whether the organization needs support and what type could be applied, or if there is no need for that.

7. Assigning the task to specialized consulting offices could be helpful in developing the regulators, but this technique needs qualified management to manage and monitor these offices.



## 11.10 Appendix J: Alphabetical References

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