PRIVATISATION PROCESSES AND FIRM PERFORMANCE

THE LIBYAN INDUSTRIAL SECTOR

Abouazoum Alafi Abdourhim Aboujdiryha

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Email: ellafee77@yahoo.com

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DISSERTATION

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by

Abouazoum Alafi Abdourhim Aboujdiryha
born on the 1st of January 1975
in Nokou, Chad

This dissertation is approved by:

Promoter: Prof. Dr. Ir. E.J. de Bruijn

Dedicated to my wife, our daughters and family.

PREFACE AND ACKNOWLEDGEMENTS

This research addresses the aspects of privatising Libyan public firms that took place between August and December 2004. It assesses the outcome of privatisation by comparing the performance of these companies over three years before and three years after their privatisation. The research raises issues that can be applied to a large number of privatised companies in Libya, particularly those which were privatised to their employees.

The interest in this subject grew out of my bachelor thesis at the University of Sebha, Libya, between 1999 and 2000. During the course work, the discussion of the subject was limited to theoretical aspects. In my master project, conducted between 2001 and 2003, I extended my interest to other economic reform policies, including liberalisation. When in December 2004 I was given the opportunity to pursue PhD research, I assumed that the four-year period would provide enough time to address my subject in more detail. Studying at a foreign university such as the University of Twente would provide me with improved working facilities, including easy access to data sources and a good working environment. The large scale of the privatisation program that was implemented in Libya in 2004 encouraged me further to conduct research on the Libyan experience. After the theoretical part was done at the University of Twente, I conducted the field work in Libya. Upon returning to the Netherlands, I completed my draft at the University of Twente.

Thank God, the Almighty, for His Blessing on us, that I was able to finish my long journey of PhD research safely.

This study could not have been completed without the contributions and help of a large number of people. I express my sincere gratitude and deep appreciation to my promoter, Prof. Dr. Ir. E. J. de Bruijn. He gave me the opportunity to start my PhD research at the University of Twente. His supervision not only made it possible for this research to be completed, it also helped me to gain more confidence in its ultimate success. I am much indebted to him for such a contribution to my life. I would like to express my gratitude to the committee members who have had to perform the demanding task of going through the material in this dissertation and evaluating it: Prof. Dr. M. van Beugen, Prof. Dr. P.B. Boorsma, Prof. Dr. J.C. van Dalen, Prof. Dr. Ir. O.A.M. Fisscher, Prof. Dr. A.E. Megri and Prof. Dr. Ir. H.J. Steenhuis.

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This work would not have been possible without the support and help of many organisations. I start with mentioning the Libyan government as represented by the Ministry of Education. Its financial support made all the activities undertaken during the period of the research project possible. My thanks extend to the Gaddafi International Foundation for Charity and Development that gave generous support in making the government scholarship possible. I highly appreciate the administration support of the Libyan embassies at The Hague and Brussels. My appreciation also goes to the Libyan privatisation agency (GBOT) that facilitated my access to the research site and for its time and valuable body of knowledge which contributed to the research. I would like to convey my special thanks to the managers and workers who participated in this research. Without their cooperation, nothing could have been achieved. I would like also to thank the managing director at the Industrial Information Centre for his time and helpful documents describing the situation in Libya. Similarly, many thanks are due to the Almenhal and Alshamice Institutes for the translation that has added greatly to this research.

Last but not least, my appreciation goes to my friends for their encouragement and support over these years. I would like to thank my family; they always showed great interest in my education and encouraged me at all times to get the best education possible. I express my deepest and sincerest gratitude to my wife and daughter for their patience and tolerance during my absence from home. They missed much of my care, and I am grateful for their understanding.

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January 2011

SUMMARY

Since the mid-1980s, there has been a global movement away from state ownership towards private ownership of companies. An important aspect of this trend has been the privatisation of State-owned enterprises with the goal of improving their in general unsatisfactory performance. Initially, the prevailing view was in favour of a fast privatisation process as the only realistic way to combat the problems related to a lack of adequate corporate governance. It was also widely believed that market institutions could be built after the private ownership was created. Recently, reflecting on the disappointing privatisation results in some of the transition economies, policymakers have realised the need to strengthen market institutions prior to privatisation. This insight was further supported by growing evidence from the developed countries that privatisation alone has been insufficient to stimulate performance improvement.

This research contributes to the recent debate on privatisation and its prerequisite restructuring. The focus is on developing countries, in particular Libya. From the mid-1980s until early 2000, Libya's industries were faced with US import and export restrictions as well as UN-imposed sanctions. Libya was therefore in an isolated position without much foreign competition for its enterprises. Currently, it is turning from a socialist- to a market-oriented economy which is open to foreign competition. This means that privatisation in Libya includes the need for creating an environment conducive to the development of the private sector. This process provides an opportunity to study how privatisation, competition, and regulation are related. The main objective of the research is: *to gain insight into the privatisation processes in the context of developing countries by studying privatisation in Libya*.

To be able to understand privatisation and its related restructuring, it is necessary to understand the privatisation process itself better. In the past privatisation in Libya has taken place in two waves, and currently a third wave of privatisation is taking place. This last wave was planned in three stages. In order to look at relatively recent privatisation experiences which are completed (so that pre- and post-privatisation comparisons can be made); I focus on the first stage of the last wave of privatisation. Hence, the central research problem is defined as: *How did the privatisation process in Libyan industrial firms take place with respect to the first stage of the third wave?*

For answering this central research problem-research questions that have been formulated:

1. What are the steps taken to privatise Libyan public companies and which factors influence these steps?
2. What have been the outcomes of the privatisation of Libyan public companies in terms of the firm's performance?
3. To what extent have the objectives of privatisation of Libyan companies been realised?

The first research question deals with the process itself with regard to the steps and activities that were undertaken towards privatisation and the factors that influence this process. The second

research question deals with the effect of privatisation on the performance and structure of the firms. The last question concerns the success of the privatisation process with regard to realising the objectives.

To address these research questions, a literature review and a case study design were selected as the appropriate research strategy. A conceptual model for the process of privatisation was developed based on the literature review. This model structures the steps and activities identified from the literature as important for completing the process of privatisation. The outcome of the model consists of the measurement of firm performance as improved firm performance is considered the ultimate goal of the privatisation. It allows an evaluation of the effectiveness of the privatisation. Four cases were analysed for this research. In-depth interviews were held with several managers and government officials, and in addition observations were made and company documents analysed, i.e. triangulation was applied.

The cases showed a slightly different process from the conceptual model which was based on the literature. The general process of privatisation in Libya was initiated with a feasibility study to assist the government to decide which firms should be privatised and how this should be done. In the four cases studied, the companies were purchased by their employees. In each case, a new company was established to take over the public firm. This signing was followed by an initial government decision of selling state firms was signed between government representative and new owners. It was based on an approximation of the market value of the firm. This was followed by a more detailed financial analysis, including the value of inventory and machinery which led to determining the final market value of the firm. The process ended with the final sales decision. The fourth case deviated from this in some aspects, because it was differently categorised for privatisation by the Libyan government than the other three cases. Although some organisational restructuring took place during and after the privatisation, which included management changes, the management of the privatised firm still came from the State system and was unfamiliar with operating in a competitive environment. However, as part of the overall Libyan privatisation process, the government introduced some degree of market liberalisation and deregulation. This had a big impact on the performance of the firms as they were unprepared for the new industry situation and also unable to adjust over time because of a lack of resources and experience. Microeconomic factors including the organisational structure, the employee situation and the performance were the most important ones in the privatisation process.

The case studies showed mixed results with respect to privatisation. Two cases out of four companies experienced a slight increase in most of the performance indicators, while one case experienced drop in most of the performance measures and even ceased operation two years later. For the remaining case financial data were not available after privatisation, but it also ceased operations. This result was attributed to the increased international competition and the lack of financing resources and managerial skills to deal with an open market economy.

For addressing the third research question, several perspectives were used. From a government perspective the privatisations can be considered mostly a success. It was able to sell its

companies and opened up the markets to international competitors. From a management perspective, an employee perspective and an owner perspective, the privatisation can be considered a limited success. Although, the managers had more decision-making authority, and employees received salary increases, the managers were not prepared to deal with the new realities, many employees lost their job, many employees had a much less secure future than before privatisation because of the introduction of annual contracts. Lastly, successful companies with satisfactory profits were not created by privatisation.

Based on the research findings, several conclusions can be drawn and recommendations can be made. The change in ownership alone was insufficient to stimulate performance improvements and that efficiency is related to prerequisite firm and market restructuring. The case firms were prematurely confronted with foreign competition due to the opening of the market. The firms did not have an opportunity to adjust themselves to this type of market economy. They were equipped with old technology, suffered from a lack of financing opportunities to invest in improvements, and their managers were not used to the level of competition that they suddenly faced. The following recommendations are made. The government should gradually open markets so that the privatised companies have time to adjust to their new environment. The government should also be aware of the financial markets, the impact of privatisation and whether new owners have the ability to invest in newer technologies so that the companies can become competitive. The most important lesson for the firms/new owners when buying a firm, is that they need to estimate what changes are going to occur in the market and whether the company is able to compete in that market, and whether it has sufficient resources to upgrade and innovate so that it can continue to operate in that market.

Because of a limited sector scope future research could focus on extending these findings by using the same methodological approach in other Libyan firms and sectors. It can be expected that this will generate additional insight into the privatisation process in Libya and increase the possibility of generalising the findings. For further research also is recommended to focus on a refinement of the methods of asset valuation and firm performance, as they turned out to be a pivotal point in the studied cases.

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LIST OF ABBREVIATIONS

ACF	Al Mansuora Condiment Factory
ACMW	Al Sawani Complex for Metal Works
ACT	Aluminium Complex, Tripoli
ACTB	Al Aman Company for Tyres and Batteries
AFC	Al Mamura Food Company
AFPC	Al Mamura Food Processing Complex
AFWI	Al Sendyan for Furniture and Wood Industry
AT	Al Garbiya for Tyres
BD	Board of Directors
BPCs	Basic People's Congresses
BSFM	Biscuit and Sweets Factory, Misuratah
CBL	Central Bank of Libya
CEOs	Chief Executive Officers
CFT	Condiment Factory, Trhouna
CPI	Customer Price Index
DEA	Data Envelopment Analysis
DFH	Dates Factory, Hoon
DMF	Domestic Manufacturing Fund
DSFK	Date Syrup Factory, Khoms
EFI	Economic Freedom Index
FCF	Fish Canning Factory
FDI	Foreign Direct Investment
FFA	Fruit Factory, Aljable Alakdr
FFD	Fruit Factory, Derj
FFM	Furniture Factory, Misurata
FPC	Furniture Public Company
FVF	Fruit and Vegetable Factory
GA	General Assembly
GBOT	General Board of Ownership Transfer of Public Companies and Economical Units (Privatisation agency)
GD	General Director
GDP	Gross Domestic Product
GP Congress	General People's Congress (Parliament)
GP Committee	General People's Committee (Cabinet)
JEDB	Janatha Estates Development Board
IFPF	Infant Food Processing Factory
IMF	International Monetary Fund

KLM	Royal Dutch Airlines
LD	Libyan Dinar
LIS	Libyan Industrial Sector
LSME	Libyan Stock Market Exchange
MCF	Misuratah Condiment Factory
MEIM	Ministry of Electricity, Industry, and Minerals
MNR	Methodology used by Megginson, Nash, and van Randenborgh (1994)
MTS	Medium-term Strategy
MWCM	Metal Works Complex, Misuratah
NDC	National Development Company
NIEFF	Net Income Efficiency
PC	People’s Committee
ROS	Return on Sales
ROA	Return on Assets
ROE	Return on Equity
RPCs	Regional plantation companies
SALEFF	Sales Efficiency
SLSPC	Sri Lanka State Plantations Corporation
SOEs	State-Owned Enterprises
TA	Technical Assistance
TC	Trailer Complex
TCF	Tin Cans Factory
TOI	Trade Openness Index
TPFS	Tomato Paste Factory, Sebha
UK	United Kingdom
UN	United Nations
USA	United States of America
USAID	United States Agency for International Development
WB	World Bank
WDP	Wealth Distribution Program
WTO	World Trade Organisation
ZPA	Zambia Privatisation Agency
$	US Dollar

CHAPTER 1: RESEARCH BACKGROUND

1.1 Introduction

In the period from the 1960s to the 1980s, the state ownership of the economic activities was the dominant trend (Boorsma, 1994). It was based on an ideological and pragmatic set of reasons (Nellis & Kikeri, 1989). Ideologically, it was thought that the state ownership through public investment would be able to create more jobs, increase production, and control prices (Ebeid, 1996). Pragmatically, many countries had no other option then the reliance on State-Owned Enterprises (SOEs) either because there was no local private sector or because the private sector was politically not accepted (Nellis & Kikeri, 1989). After 1980, undue and overgrown state intervention gave rise to growing fiscal deficit and foreign debt (Seock, 2005). SOEs had generally posted disappointing performances. Although some of them did well, many others were particularly inefficient (Guislain, 1997).

In the early stage of privatisation, a considerable debate raged about whether privatisation leads to improved firm performance (Andrews & Dowling, 1998). In this context, numerous empirical studies focused on the ownership issue. Comparisons were made between the performance of privately owned firms and state firms. In the mid-1980s, many governments around the world reached the conclusion that state ownership was not working, and that private ownership was much more productive. As a result, there has been a global movement away from the state ownership of production and services towards private ownership and free enterprises (Gratton-Lavoie, 2000). One of the important aspects of this trend has been the sale of SOEs to the private sector with the expectations of improving their unsatisfactory performance.

Privatisation can be defined in a narrow sense as a process that fully or partially transfers SOEs to the private sector (Jackson & Price, 1994). In this sense, activities that are launched for the privatisation process might be limited to selling-off the SOEs or contracting them out by leasing (Zahra, Ireland, Cutierrez, & Hitt, 2000). Privatisation can also be defined in much larger and broader terms as a process providing the private sector with the biggest role in business decision-making (Berg & Berg, 1997). In this sense, activities that are launched with the privatisation process might include contracting out or selling-off the SOEs, opening state monopolies to greater competition, reducing state subsidies, and deregulating or liberalising the market in which SOEs operate (Parker & Hartley, 1991). In this research, the broad definition of privatisation will be used. Therefore, privatisation is viewed as a process that involves not only the change of the ownership but also relates to increased competition and deregulation of markets.

Megginson and Netter (2001) argued that the first privatisation program occurred in 1961, when the German government sold a majority stake in Volkswagen to small investors. Ramanadham (1988) and Megginson, Nash, & van Randenborgh (1994) argued that the first major

privatisation program was launched by the British Conservative government of Margaret Thatcher in 1979. The successful sale of British Telecom in 1984 was a stimulus to launch similar privatisation schemes in many other developed countries such as France, Italy, German, and Japan (Gratton-Lavoie, 2000; Megginson & Netter, 2001). By the end of the 1980s, privatisation had spread rapidly around the world, also to the developing countries of South Asia, Latin America, Africa, and the Middle East (Gratton-Lavoie, 2000; Shehadi, 2002). Chile was the first Latin American country which implemented privatisation in 1974 as part of a general program designed by the military government to reverse the measures introduced by the Allende government (Galal, Jones, Tandon, & Vogelsang, 1994). Many African countries have implemented privatisation as a major policy of economic reform. The first Arabic country where privatisation was formally supported was Morocco, and it was rapidly followed by Tunisia, Jordan, and Egypt (Shehadi, 2002).

When using the broad definition, governments around the world have three principal objectives with privatisation. One objective is to increase the nation's overall economic efficiency. This can be accomplished in a variety of ways: by competition, by rationalisation and restructuring, and by a carefully designed regulatory regime (Moore, 1986). A second principal objective of privatisation is to reduce the nation's financial burden. This is accomplished by selling off inefficient SOEs (Kikeri, Nellis, Shirley, 1992). The third objective, which is a key objective of privatisation, is to improve the performance of former SOEs by transferring their ownership to private investors because private investors have different incentives with more emphasis on a company's financial performance (Vickers & Yarrow, 1991).

1.2 Privatisation in developing countries

The path to reform in some developing or/and transition economies has been more difficult and appears to be less successful compared with developed countries. For example Aussenegg and Jelic (2007) found no evidence of a significant improvement in operating performance of 166 companies from three transition economies (Hungary, Poland and the Czech Republic). Black, Kraakman and Tarassova (2000) conclude that without a proper infrastructure, rapid large-firm privatisation will not help the economy much if at all. Ilori, Nassar, Okolofo, Akarakiri and Oyebisi (2003) found poor results from privatisation in Nigeria. Zhang, Parker and Kirkpatrick (2007) concluded that privatisation and regulation do not lead to obvious gains in the economic performance of 36 developing and transitional economies.

Sun and Tong (2003) evaluate the performance changes of 634 state-owned enterprises (SOEs) listed on China's two exchanges upon share issuing privatisation (SIP) in the period 1994–1998. The authors found that SIP is effective in improving SOEs' earnings ability, real sales, and workers' productivity but is not successful in improving profit returns and leverage after privatisation. They also found that state ownership had negative impacts on firm performance and legal-person ownership had positive impacts on firm performance after SIP.

There is also evidence that privatisation process could not achieve desired results even in developed economies. For example, Crompton and Jupe (2003) conclude that Privatisation of Britain's railways failed in all areas as it produced an inefficient system with higher costs, poorer quality of service, and increased public subsidy.

In contrast to the above mentioned failures with privatisation in developing economies, there are also success stories with privatisation. For instance, Debrah and Toroitich (2005) explored the transformation of Kenya Airways from a loss-making SOE to a profitable airline. The success of the privatisation of Kenya Airways was attributed to the government's strong determination to make it a success by setting up a special committee (the Okero Probe Committee), the method used to sell the firm, the restructuring that took place prior to privatisation, and introducing a corporate governance system. The success of Kenya Airways was also attributed to its strategic partnership with KLM.

To summarise the above discussion, privatisation experiences are significantly different from one country to another. Although it is clear that, in general, in developing countries this process appears more difficult than in industrialised countries, it turns out that some developing countries, like India and China, find ways in their own setting to achieve results that can be considered comparable with results in industrialised economies. Compared with the developed countries, the path to reform has been more difficult and appears to have been less successful in developing countries. One explanation for this is that many of these countries suffer from the lack of sufficient institutional and corporate governance structures as well as laws governing ownership rights. Another explanation for the difficulties of privatisation in developing countries is the lack of qualified executives, who can oversee the reform process, make the transformation of the SOEs into the private sector more challenging (Zahra, Ireland, Cutierrez, and Hitt, 2000). In addition to the lack of budgetary resources to finance the contingent liabilities of the divested companies could make the privatisation more difficult. The lack of transparency in establishing the market value of SOEs before the sale as well as in making specific deals could also contribute towards failure of privatisation (Karatas, 2001). The local opinion can also be other explanation – privatisation may be perceived as a loss of resources to foreigners and loss of independence as donor agencies are very much involved in the implementation to help many African countries set up and finance an institutional structure for privatisation (Kayizzi-Mugerwa, 2002).

The goal of this research is to contribute to the literature on privatisation with a focus on the problems and issues in developing countries. One developing country was selected for this study, i.e. Libya. Focussing on one country allows for better understanding of the complex environment. Libya was selected since it is a country that has a long legacy of central economic management and excessive reliance on the public sector but that has decided to undertake comprehensive structural reforms and transition to a market economy (IMF, 2007). Libya also provides a fairly unique environment for studying privatisation. In the early 1980s the government of USA prohibited imports of Libyan crude oil into the USA and imposed export

restrictions on USA goods. In 1986 a total ban on direct import and export was adopted. The UN also imposed sanctions on Libya, related to the Lockerbie bombing. During the early 2000s Libya began to make policy changes and restore diplomatic ties. This means that for a long period of time, Libya was in an isolated position without much foreign competition. Based on these considerations, the main objective of this research is

> *To gain insight into the privatisation processes in the context of developing countries by studying privatisation in Libya.*

1.3 Privatisation in Libya

In this part, background information is provided for the realisation of privatisation in Libya by first describing the state of the industries (1.3.1), two previous experiences with privatisation (1.3.2 and 1.3.3) and the last privatisation plan (1.3.4).

1.3.1 Performance problems of Libyan industries

The Libyan Ministry of Industry was created in 1961. The monarchy government restricted its direct investment to less than ten establishments (Allan, 1982). After 1969, the revolutionary government paid more attention to the Libyan Industrial Sector (LIS) with the aim to enhance economic diversification by expanding non-oil products. It also aimed to achieve self-reliance and self-sufficiency in food. The LIS received priority status and a huge amount of money to contribute to regional development and job creation. From 1970 to 2005, LD 6 billion ($4.91 billion) was allocated to the LIS, and LD 4 billion ($3.27 billion) was actually spent on it. Recently, the LIS consisted of 360 companies which were divided into seven categories and three types of ownerships (Ministry of Electricity, Industry, and Minerals (MEIM), 2006). Public companies were those in which the state, represented by the LIS, owned all of their capital. Joint-venture companies were those in which the state shared ownership with either public or private partners. Privatised companies were small-scale companies, including previously state-owned ones (Shareia, 2006). Table 1.1 provides an overview.

Table 1.1: The Libyan industrial companies

	Public project	Joint-venture	Privatised project	Total
Food projects	17	35	22	74
Textile, weaving, furniture, and paper projects	*17*	*10*	*91*	*118*
Leather projects	13	11	-	24
Chemical projects	14	25	11	50
Metal works projects	3	-	-	3
Engineering and electronic projects	22	18	28	68
Cement and house building projects	11	6	6	23
Total	97	105	158	360

Source: The Ministry of Industry, Electricity, and Minerals, 2006.

In 2001, the LIS hired 1721 employees, about 11.8 percent of its total labour force (IMF,

2006/137). Despite the huge investments that were poured into the LIS, its contribution to the Gross Domestic Product (GDP) did not exceed 8 percent during the 1970s, while it dropped to 5.9 percent in 2000 and eventually to 3.2 percent in 2002 (Shareia, 2006). According to Alqadhafi (2002), the actual production capacity in only 17 out of 250 companies exceeded 60 percent of their design capacity, while it ranged between 9 and 59 percent at the remaining 233 companies. Table 1.2 shows the achieved production capacity compared to the design capacity in public industrial companies.

Table 1.2: Realised production capacity of some public industrial companies, 30/09/1999

Industrial projects	Achieved capacity (%)	Industrial projects	Achieved capacity (%)
Light industrial projects			
Fruit Factory, Aljable Alakdr (FFA)	13	Tomato Paste Factory, Sebha (TPFS)	0
Fruit Factory, Derj (FFD)	1	Dates Factory, Hoon (DFH)	26
Al-Nahda Agricultural Factory, Zawia	10	Fruit and Vegetable Factory (FVF)	24
Dates Syrup Factory, Khoms (DSFK)	28	Olive Oil Extraction and Refining Factory, Isbea	4
Tin Cans Factory (TCF)	75	Flour Mill, Tobruk	0
Automatic Bakery, Tripoli	8	Automatic Bakery, Misurata	6
Wall tiles Factory, Gherian	28	Plane/Flat Glass Factory	29
Clothes Factory, Derna	27	Carton Box Factory, Nasseria	27
Plastics Factory, Benghazi	23	Plastics Factory, Beida	21
Gases Factory, Tripoli	12	Red-Brick Factory, Sawani	26
Alamal Washing Machine Factory	2	Refrigerator Factory, Rujban	0
Strategic industrial projects			
Cement Factory, El-Margab	0	Gypsum Factory, Sawani	22
Metal Works Factory	12	Lime Factory, Suk El-Khamis	19
Filter Factory, Benghazi	5	Lime Factory, Benghazi	10
Red-Brick Factory, Benghazi	5	Cement Moulds Factory,	14

Source: Alqadhafi, (2002: pp 29-30).

Alqadhafi (2002) added that the actual production capacity in eleven industrial projects, among the 31 most important projects, ranged between 5 and 60 percent of their design capacity. Table 1.3 shows the achieved production capacity with respect to the design capacity in the most important industrial projects measured over a three-month period in 1999.

Table 1.3: Realised production capacity in the most important public industrial companies, 06/09/1999

Industrial projects	Achieved capacity (%)	Industrial projects	Achieved capacity (%)
Textile National Company	60	Arab Company for Manufacturing and Bottling	28
Furniture Public Company (FPC)	60	National Food Company	24
Trailer National Industrial Company	54	General Company for Paper	20
National Company for Soap and Cleaning Materials	33	General Company for Plastic and Artificial Sponge	12
Alaman Company for Tyres and Batteries (ACTB)	33	Libyan Company for Tractors	5
General Company for Pipes	33		

Source: Alqadhafi, 2002, pp 29-30. FFM branch of FPC is included in this research.

In addition, the LIS, like other sectors, has faced many problems and obstacles since the 1990s. It suffered from the reduction in the state subsidies due to the drop in the oil income. The sector was also subjected to various organisational changes. In 2000, the Ministry was abolished, and its competence was transferred to the Production Affairs of the State. In 2004, the Production Affairs was abolished, and the Ministry of Industry was created but merged with the Ministry of Electricity and Minerals. This resulted in administration instability and overlap in the authority and responsibility (MEIM, 2006). The public projects faced a sharp increase in the cost of their inputs due to the sudden unification of the exchange rate (Ministry of Economy and Trade, 2006). In January 2002, the exchange rate was unified at LD1 = $0.608 compared with the special rate of LD 1 = $0.36 that had been in place since February 1999 (IMF, 2003).

After three decades of excessive reliance on the public sector, the government became dissatisfied with the performance of the public sector and learned that the inefficiency associated with the public sector was higher than expected. This was clearly evident in the interposition made by Colonel Algathafi at the General People Congress (GP Congress, parliament) in Sirte in January 2000, "*the system is finished. I have to step in today to stop this wheel from spinning in a rut and wasting fuel*". Further, he accused members of the GP Congress of deliberately wasting the country's resources, saying "*you are holding onto obsolete methods in order to justify wasting oil*" (Otman & Karlberg, 2007). To interpret the recent privatisation process in Libya, it is necessary to have an overview of the historical reform programs of the country.

1.3.2 The first and second wave of privatisation

Since the mid-1980s, three waves of privatisation have taken place in Libya. Initially, as a response to the drop in the oil market in the mid-1980s, the Libyan government adopted its first economic reform program. It introduced the concept of *Tashrukiyya*, collective ownership that allowed for the creation of cooperatives to which some partners contribute labour and capital (Vandewalle, 1998). The *Tashrukiyya* system allowed limited private investments in Libya for the first time since 1977. The aim was to encourage the private sector to participate in the service

and light industries as a means of overcoming their inefficiency (Altunisik, 1996). In the industrial sector, 102 public firms were privatised, and 10,233 new private firms were created. These firms were involved in the textile, food, clothing, chemicals, metal works, and furniture industries (Ministry of Light Industry, 1992).

Following this first wave of privatisation, in the early 1990s, the government went further with the economic reform program and introduced the concept of *Sharika Musahima*, joint-stock company. It was an effort to surpass the previous privatisation experience and share the state burden with the private sector (Vandewalle, 1998). The program aimed to liberalise the wholesale trade and attract foreign investments in response to the international sanctions related to the Pan Am bombing over Lockerbie, Scotland, in 1988 (Otman & Karlberg, 2007). In the industrial sector, 196 public firms were privatised, and 7,483 new private firms were created. Those firms were involved in textile, food, metal, chemicals, and furniture (Ministry of Light Industry, 1992).

1.3.3 Evaluation of the first and second wave of privatisation

Evaluation of these two waves of privatisation indicated that they were not successful works as envisaged. According to evaluation reports prepared by the Ministry of Planning in 2005, the success of *Tashrukiyya* was limited as most of the firms privatised through this system suffered from low productivity. This was because they had not been restructured in a way to obtain their performance improvement afterwards. They had been privatised with their prior debts and excess labour. Alqadhafi (2002) added that state intervention in the economy remained widespread. Price-setting was still state controlled, and this resulted in a situation that it was difficult for firms to make a profit as in a free market economy. Furthermore he found that for the second wave of privatisation, the performance of some of the privatised firms had declined, and their productivity was similar to, if not worse than, the situation before privatisation. Alqadhafi (2002) provided the same reason for failures with the second privatisation round as with the first. Another reason stated by the Ministry of Planning (2005) was that the method of privatisation was partly responsible for the performance decline as it was limited to employee buyouts. Alakdar (2005) concluded that some privatised firms suffered from expensive spare parts and also had difficulty obtaining them because of procedures that were imposed on the private sector. Evidence revealed that a variety of solutions to the problem of managing the public sector had failed to improve the performance of the public sector companies. It became apparent that the nationalised and centralised system of government in Libya had failed to deliver its economic goals (Otman & Karlberg, 2007). During 2001-2002, following the speech by Colonel Algathafi at the GP Congress in Sirte in January 2000, the Libyan government created a number of evaluation committees to examine the public industrial projects in particular for 1999-2001. The conclusions of the committees can be briefly summarised as follows. During the 1999-2001 period, most of the public industrial projects were overstaffed, equipped with old machinery, and suffered from a lack of stable management. The operation level across the public industrial

sector did not exceed 42 percent. Most of the companies were loss-makers as they were suffering from high inventories. According to the financial and technical status, 30 large industrial companies were classified into three groups. The first group consisted of 18 companies with a good financial status (table 1.4). It was recommended to retain these companies within the public sector as they were strategic companies and their products were required for the economic development.

Table 1.4: Strategic public industrial companies

	Company	Capital	Profit (loss)	Debt	Net fixed asset
1	Electronic Public Company	24,000	16,063	4,360	24,000
2	National Public Company for Beverage, Benghazi	650	18,292	0	10,195
3	* Furniture Public Company (FPC)	44,028	26,028	15,025	11,000
4	Pipes Public Company	44,980	13,603	13,650	13,000
5	National Company for Flour Mills and Fodder	85,965	12,229	48,656	70,000
6	Public Company for Wires and Electricity Tools	32,700	5,834	4,792	12,353
7	Public Company for Chemical Products	191,000	(7,217)	5,657	65,000
8	Alaman Company for Tyres and Batteries (ACTB)	57,124	(4,874)	12,235	20,000
9	Company of Electricity Household Equipment	11,276	37,419	23,218	6,000
10	Alarabiya Company for Beverage	7,411	8,307	13,494	17,000
11	Alarabiya Company for Cement	172,460	(7,805)	94,144	92,452
12	Tobacco Public Company	36,000	(983)	32,272	11,742
13	Libyan Company for Iron and Steel	1,250,000	(123,057)	85,767	879,451
14	Trucks and Buses Company	87,000	(13,628)	185,166	111,502
15	Scrap Public Company	10,000	(867)	3,311	4,532
16	Public Company for Plastics and Industrial Sponge	48,515	228	29,709	3,000
17	National Company for Waste Pipes	4,500	408	5,824	2,841
18	National Company for Trailer	7,600	(595)	9,646	5,390

Source: Production Affairs (2002: p. 14). * FFM branch of FPC is included in this research.

The second group consisted of five faltering companies. These companies had modest profit, huge debt, and were suffering from a lack of cash (table 1.5). Privatisation of these companies was recommended.

Table 1.5: Second group of public industrial companies

	Company	Capital	Profit (loss)	Debt	Net fixed asset
1	Textile National Company	1,500	22,024	11,576	N.A.
2	Spinning and Weaving National Company	113,594	(5,812)	30,911	20,000
3	Alarabiya Company for Engineering Manufactures	136,495	(22,765)	16,423	100,000
4	Cement Libyan Company	153,500	(24,790)	27,424	N.A.
5	Tractors Libyan Company	7,500	(4,003)	2,913	N.A.

Source: Production Affairs (2002: p. 16).

The last group consisted of seven bankrupt companies. These companies failed to realise their targets and were loss-making. They had large debts and old technology and were overstaffed (table 1.6). It was recommended that these companies be liquidated and their branches privatised.

Table 1.6: Third group of public industrial companies

	Company	Capital	Profit (loss)	Debt	Net fixed asset
1	*Al Mamura Food Company (AFC)	49,029	(18,620)	7,401	1,000
2	Public Company for Leather Products	38,000	(7,517)	61,231	9,500
3	National Development Company (NDC)	15,946	7,760	71,553	4,000
4	National Company for Animal Feed	68,294	(50,931)	50,672	9,000
5	Libyan Company for Building Equipment	740	(959)	18,805	2,000
6	National Food Company	7,962	(11,766)	9,906	2,000
7	National Company for Soap and Washing Equipment	14,218	2,133	28,830	8,000

Source: Production Affairs (2002: p. 18). * Three branches of AFC including TCF, IFPF, and ACF are included in this research.

1.3.4 The third wave of privatisation

In 2003, based on the earlier findings, the Libyan government announced a large-scale privatisation program which introduced the third privatisation wave, A*l Tamleek*. It was described as a program of broadening the ownership base through encouraging residents to own the public firms to avoid concentrated ownership (Alfourjani, 2005). The program aimed to restructure the Libyan economy towards building popular capitalism through spreading share ownership more widely (Alsouia, 2005). It also aimed to transfer the role of the state from the owner to encourager of the economic activities (Shernna & Alfourjani, 2007). The program also aimed to make the country eligible for World Trade Organisation (WTO) membership (John, 2008). This privatisation is part of the large economic reform programs, including the Wealth Distribution Program (WDP) that was launched to distribute part of the oil wealth to the population. The distribution would be in the form of both cash and shares in the public firms to improve the living standards of the residents (IMF, 2008).

The performance of the Libyan economy (1999-2003)

Oil revenues in Libyan dinars were increased by the large devaluation of the official exchange rate at the end of 2001. However, tax and customs revenues declined, mainly as a result of widespread exemptions granted to public firms in 2002. Consequently, total revenues increased by only 2.5 percent of GDP. The Customer Price Index (CPI) declined by 9.8 percent, driven mostly by increased competition resulting from trade liberalisation and exemptions from all taxes and custom duties granted to public firms. GDP stagnated in 2002, reflecting 7.6 percent decline in oil production and 2.9 percent growth in the non-oil sector. The external account shifted to a deficit for the first time since 1998 as import payments rose by almost 40 percent to $7.4 billion, while export receipts fell by about 8 percent, driven by a decline in oil exports. About 75 percent of these imports is financed from the budget, and the remaining imports are those of public firms which were provided with foreign exchange at the pre-unification official rate at the end of 2001; they also were exempted from tax and custom in 2002 (IMF, 2003). Appendix A, table A1, provides the Libyan basic economic and financial indicators for the period 1997-2003.

The role of the World Bank (WB)

In 2002, Technical Assistance (TA) was signed between the World Bank and the Libyan government. Libya would have to cover most of the cost of the assistance. It covered the areas of the monetary policy, bank restructuring, tax policy, and revenues management. The TA aimed to consolidate public finance, streamline budgetary management, remove external trade restrictions, complete price liberalisation, rationalise the subsidy system, develop a vigorous privatisation program, and improve the business climate (IMF, 2003). In 2005, Medium Term Strategy (MTS) was signed between the WB and the Libyan government. It aimed to maintain macroeconomic stability and rationalise the use of the country's oil wealth, accelerate the transition to a market economy and create a solid basis for the development of the non-oil sectors. In 2007, a technical cooperation agreement was signed between the WB and the Libyan government with a total budget of $1 million contributed jointly in two parts. The agreement funded a joint economic advisory program, to support and further Libyan's reform process, covering the period from July 2007 to June 2008. Activities were launched in the areas of an investment climate assessment, business and legal environment, and support for the development of the Libyan vision 2025 (IMF, 2008).

The scope and sectors involved in the third wave of privatisation

This third wave of privatisation targeted 360 companies which included 204 industrial firms, 56 agricultural firms, 82 livestock firms, and 18 marine firms (table 1.7).

Table 1.7: The scope and sectors involved in the third wave of privatisation

Sector	The first stage	The second stage	The third stage	Total
Industrial companies	145	41	18	204
Agricultural companies	28	4	24	56
Livestock companies	71	0	11	82
Marine companies	16	1	1	18
Total	260	46	54	360

Source: GBOT, Vol: 3 (December 2005: p. 41).

Privatisation was planned according to an interlocking time schedule in three stages from 2004 to 2008. The first stage targeted 260 public companies to be privatised during 2004-2005. The second stage targeted 46 medium companies to be privatised by using public bidding, *Sharika Musahima,* from 2004 to 2007. The third stage targeted 54 large strategic companies to be privatised over the period of 2004-2006 (Aldroish, Khajiji, & Al Kdar, 2005). Due to the large investments in these companies, they were initially restricted to special bidding, *Sharika Musahima*, for holding investment companies and foreign investors. From 2007 to 2008, some shares within these companies should have been transferred to residents as part of the Wealth Distribution Plan (Production Affairs, 2003).

The first stage was further divided into three groups (Aldroish, Khajiji, & Al Kdar, 2005). The first group consisted of 191 companies that were going to be privatised through employee buy-outs, *Tashrukiyya,* and special bidding, *Sharika Musahima*. The second group consisted of 58 mother companies, while the third group consisted of eleven companies. These were both going be liquidated through bankruptcy proceedings because of their large external debts and their obsolete technologies. Table 1.8 provides an overview.

Table 1.8: The first stage of the third wave of privatisation, 2004 to 2005

Group	Industrial companies	Agricultural companies	Livestock companies	Marine companies	Total
A	95	22	59	15	191
B	40	5	12	1	58
C	10	1	N.A.	N.A.	11
Total	145	28	71	16	260

Source: GBOT, Vol: 3 (December 2005: p. 41).

This first stage of privatisation was governed by new legislations for the economic reform in general and the privatisation process in particular (appendix B). These legislations concern market liberalisation, competition, and other institutional issues.

Liberalising the market

Tariff reductions were introduced under the Pan-Arab Free Trade Agreement, and a number of trade agreements were concluded with the European Union. The average tariff rate was reduced from 21.8 percent in 2003 (tariff rates ranged between zero to 425 percent) to 17.8 percent in 2004 (with a maximum rate of 100 percent) (IMF, 2007). The new tariff has only two rates (10

percent for tobacco products and 0 for all other products), but all imported goods are subject to a 4 percent service fee (IMF, 2006/136). There was also a reduction in the dispersion of tariffs in the product categories. In addition, certification requirements for trade with Maghreb countries (Libya, Tunisia, Algeria, Morocco and Mauretania) were also simplified. The trade regime was simplified further in 2006 by reducing the consumption tax rate on imported goods to 15-25 percent. The goal was to make it far easier for foreign investments and capital to enter the country. The restrictions on external trade were significantly eased by downsizing the list of prohibited imports from 40 items to 10 products that were prohibited for religious and health reasons. Meanwhile, the floor on Foreign Direct Investment (FDI) in the non-oil sector was lowered from $50 million to $1.5 million (IMF, 2007).

To attract private investors, the production, prices, wages, and exchange rate of the national currency were all deregulated. The newly privatised companies were exempted from paying consumption taxes on operating equipment, spare parts, and raw materials for a period of five years. They were also exempted from paying income and production taxes in order to encourage the private investors to get involved in the privatisation process (GBOT, 2004). In addition, the government made arrangements with domestic banks to provide the newly privatised firms with subsidised loans at the rate of 3 percent per annum (Otman & Karlberg, 2007).

In April 2004, the government issued resolution no. 100/2004 which gave permission to the General Board of Ownership Transfer of Public Companies and Economical Units (GBOT) to transfer the ownership of 126 public companies to the private sector at their initial fixed prices which were outlined in the resolution. It also finalised the details and outlined a series of conditions which had to be met before the firm could be privatised. One condition was that GBOT should create supervisory committees for each targeted company in order to monitor its privatisation process. GBOT should also create establishment committees for each targeted company to obtain the final market value of the company. GBOT should also hire a legal editor to declare a new privatised company. Shares in the target company should first be offered in whole or in part to the employees; if they did not take up the option, then the shares could be offered to the public.

To acquire shares in the company that was targeted for privatisation, it was possible for the employees to withdraw and use their accumulated 1.5 percent of salary contribution, which was made compulsory by law no.1/1986, as payment for their shares.[1]

It was also possible for the employees to use their unpaid salaries, wages, or vacation payments to acquire shares in the company. The employees had the right to keep what they wanted from the current assets such as raw materials and spare parts. They also had the right to own the real estate and land. A flexible time period, ranging between five to eight years, was offered for buying the ownership of the company. In cases where the employees accepted the offer, they

[1] In the mid-1980s, the Libyan government established the National Investment Company as a joint-stock public company owned by the society. The company was created by resolution no. 1 of 1986 issued by the Basic People's Congresses (BPCs) to invest with 1.5 percent of the salary of the state employees (GBOT, 2004).

would be required to cooperate with the legal editors to create a new company that was going to take over the former firm. Those who were not interested in buying shares in their factories would be offered a mixture of options. These options included a self-employment program, transferring workers to other government agencies, and early retirement benefits.
A third condition was that the establishment committees should conduct stock-taking activities to assist GBOT to obtain the final market value of the firm which was to be privatised. The issue of surplus workers had to be dealt with before privatisation could take place. The firms had to be free of any prior obligations such as outstanding taxes, social security payments, creditors, and bank loans. In addition, the issue of unpaid wages, salaries, and vacation payments had to be dealt with prior to the privatisation taking place.

Increasing the competition

To improve the business environment, the existing investment laws that covered economic activities in the country were revised. Significant changes in the administrative procedures were introduced, with 51 offices being opened across the country to simplify the business application procedures. In particular, a one-stop window has been established and a 30-day limit for application approval set with the obligation for the administration to notify any refusal through a notary public. The goal was to facilitate and accelerate business creation (IMF, 2006/136). The State's import monopolies were reduced to petroleum products and weaponry. The goal was a private sector that could freely import and produce goods that were previously under state control (IMF, 2007).

Creating the institutional infrastructure

In addition to measures to liberalisation of the markets and to increase the competition, The Libyan government issued legislation to create a new institutional infrastructure and to stimulate market exchanges. It created the General Board of Ownership Transfer (GBOT). The GBOT was created to propose which public companies should be privatised and how their necessary restructuring should take place, GBOT was also in charge of supervising the public companies after their privatisation in order to facilitate them in required areas.
The Libyan government also created the Domestic Manufacturing Fund (DMF) to fund restructuring activities to prepare public companies for privatisation. DMF also was supposed to provide a bank guarantee to help the privatised companies with short term loans. Moreover, the Libyan Government set up the Libyan Stock Market Exchange, the Board for liquidation of public companies and the Fund for supporting exports.

1.4 Research focus and research questions

1.4.1 Focus of the research

Almost every government that decides to follow a privatisation route expresses similar objectives, regardless of its ideological basis. All appear ultimately based on the disappointed performance of the SOEs, and all perceive that the lure of financial incentives and discipline of the capital markets will spur greater efficiency (Megginson, Nash, & van Randenborgh, 1994). However, experience reveals that privatisation is not always successful and does not guarantee performance improvements (Parker & Martian, 1995). These different outcomes of privatisation cannot be fully explained (yet). The difficulty is that privatisation characteristics vary from one country to another and even from one firm to another (Guislain, 1997). It can take different forms and degrees in the transfer of ownership; it can be complete sector divestment or public and private partnerships (Calabrese, 2008). Furthermore, privatisation is a complex process, which requires a great deal of planning, preparation, and the creation of institutional infrastructure favourable to the market exchange (Zhang, Parker, & Kirkpatrick, 2005). This can pose a host of policy questions and decisions that need to be addressed prior to the sale (Mahoobi, 2003). With the evaluation of the two previous waves of privatisation in Libya in mind, the question is whether the third wave turned out to be more successful. In order to establish this, the following central research problem was posed:

How did the privatisation process in Libyan industrial firms take place during the first stage of the third wave?

1.4.2 Research questions

Privatisation is not a single event but a process that occurs in stages (Ramamurti, 2000). It is combined with a variety of organisational changes in different settings, and the influences of these changes cannot be isolated from the effect of privatisation (Boubkri, Cosset, & Guedhami, 2005). The SOEs usually have excess employees, large fiscal debts, and a lack of sufficient entrepreneurial capabilities. For that reason, preparation prior to their sale is necessary to ensure that they become more attractive for the buyers (Moore, 1986). The market in which the SOEs operate must also be prepared to protect the investors from arbitrary political actions and the consumers from the abuses of monopoly power (Bortolotti & Siniscalco, 2004).

This process, or sequence of stages, of privatisation is influenced by a number of factors and is characterised by important decisions. One important factor to consider is the method of privatisation. A government may privatise the SOE through public share offerings to achieve widespread ownership and develop the equity market in countries where the capital market is weak (Mahoobi, 2003). The government may also give away or sell the SOE at a low-price to gain political support for privatisation based on distributing free vouchers to allow citizens to obtain certain shares in the SOE (Shafik, 1996). Governments in transition economies have used employee buyouts to privatise SOEs where buyers were not plentiful and alternative privatisation

methods were likely to encounter strong opposition from the incumbent management. Governments may also partially privatise the SOEs as the first step towards opening up further privatisation in situations where full privatisation is not feasible or desirable (Havrylyshyn & McGettigan, 1999). But the selection of privatisation method is important for realising its objectives (Megginson, Nash & van Randenborgh, 2004).

Another important factor is the existence of market institutions and the speed of privatisation. Early in the process, the prevailing view suggested fast privatisation as the only realistic method to combat the inevitable problems associated with the lack of corporate governance. It was also believed that market institutions would be built once the private ownership was created (Wallsten, 2002). In recent years, policy makers in the WB and WTO have increasingly recognised the need to strengthen market institutions before privatisation, both globally and in developing countries. This was mirrored by the growing evidence from the industrialised economies, such as the United Kingdom (UK), that privatisation alone was insufficient to stimulate the performance improvements (Zhang, Parker, & Kirkpatrick, 2005). The increased importance given to the market institutions was also viewed as a response to the disappointing privatisation results coming from some transition economies such as Russia and the Czech Republic (Shirley & Walsh, 2000). An important and difficult decision that most governments confront early on in the privatisation process is therefore whether an SOE should be restructured prior to privatisation or let the buyers carry it out afterwards (Megginson, 2005). More generally, should there be sequencing in privatisation, and if so, what principles should underlie this sequencing (Roland, 1994)?

The discussion above indicates that a principal question remains of how to shift a society from an economic mode stressing state ownership and direction to one based on private ownership and free enterprise. Ultimately, this takes place through processes at the company level involving, for example, the method and speed of privatisation. Furthermore, it deals with aspects such as the sequencing of ownership change, competition, and regulation. This focus is in line with the suggestions for further research as discussed by Ramamurti (2000), Zahra, Ireland, Cutierrez, and Hitt (2000), Aussenegg and Jelic (2002), Wallsten (2002), and Zhang, Parker and Kirkpatrick (2008). They pointed out that the field of sequencing of privatisation, competition, and regulation is under-researched, and the findings on some issues are limited and inconclusive. In this context, the research focuses on a developing country, where the institutional framework for regulation is weak. It may be expected that the impact of ownership change, competition and regulation in this type of country will be affected by why and how these policies are introduced (Zhang, Parker, & Kirkpatrick, 2005).

Accordingly, the research argues that to gain a better understanding of the privatisation process, it is necessary to divide the central research question into three parts that together lead to an adequate addressing of the problem statement. One of the key questions facing policymakers is related to the staging of the sale (Mahoobi, 2003). In other words, how fast should SOEs be sold, and who should execute the restructuring, the government before privatisation or the buyers

afterwards (Megginson, 2005)? In addition, how does the restructuring fit into a market reform process, and what should the sequences of reform be (Wallsten, 2002)? Should one privatise before or after market reform, or should both proceed simultaneously? Thus, it is necessary to obtain knowledge on the process itself with regard to the steps undertaken towards privatisation and the factors that influence this process. Based on this, the first research question is formulated as:

1. What are the steps involved in privatising Libyan public companies and which factors influence these steps?

It is not sufficient to view the transfer of the ownership of a firm from the public to the private sector as an end in itself (Banerjee & Munger, 2004). As experiences have revealed, privatisation is not always a success, and it does not guarantee performance improvements (Parker & Martin, 1995). It can also have adverse effects at least in the short term (Gupta, Schiller, & Ma, 1999). Thus, the second research question is defined to study the effect of privatisation on the firm structure and performance:

2. What are the outcomes from the privatisation of Libyan public companies in terms of a firm's performance?

Most governments have issued policy statements that set out the objectives of their privatisation programs (White & Bhatia, 1998). One of the most important policy objectives of privatisation is to improve the efficiency and performance of the firms (Mahoobi, 2003). Empirically, a large number of studies have documented superior performance improvement after privatisation, whereas a few have produced opposite conclusions (Megginson & Sutter, 2006). The third research question is broadly stated and relates to whether the privatisation can be considered successful. Multiple perspectives come into play. The third research question is formulated as:

3. To what extent have the objectives of privatisation of Libyan companies been realised?

1.5 Research methodology

Research methodology is defined as the scientific procedures that provide tools for obtaining information to address the research questions and objectives (Redda, 2007). The importance of research methodology is that it provides the logic behind the selected strategy (Melyoki, 2005).

Research project refers to a theory- or practice-oriented project. A theory-oriented project refers to developing a new theory (or a part of one) or improving theoretical views in a specific field of a study. A practice-oriented project, on the other hand, is concerned with solving a specific problem within a particular organisation. It refers to solving a particular problem, creating a new situation, or instigating a new development (Verschuren & Doorewaard, 1999). This research is designed to contribute to the understanding of privatisation and can therefore be classified as theory-oriented.

1.5.1 Deductive versus inductive

Within a theory-oriented project, a further distinction can be made between inductive and deductive approaches (Saunders, Lewis, & Thornhill, 2003). An inductive approach is used to develop a new theory or part of it through the result of collected data analysis. A deductive approach, on the other hand, is used to test a theory (Babbie, 2004). To distinguish between inductive and deductive approaches, Creswell (1994) suggested a number of criteria as cited in Saunders, Lewis, and Thornhill (2003) (table 1.9).

Table 1.9: Criteria to distinguish between inductive and deductive approaches

Criteria	Inductive approach	Deductive approach	Selected approach
Available time	Long period of data collection and analysis	Can be quicker to complete	Limited time available
Risk	High risk	Lower risk	Lower risk
Emphasis	Close understanding of research context	Causal relationship between variables	Close understanding of research context
Structure	More flexible structure	Highly structured	Highly structured
Data collection	Qualitative data	Quantitative data	Qualitative and quantitative data
Generalisation	Less concern with generalisation	More concern with generalisation	Less concern with generalisation
The researcher		Independence	Independence

Source: Saunders, Lewis, and Thornhill (2003: p. 90).

An important criterion is the nature of the research topic. A topic on which there is a wealth of literature, from which a theoretical framework and hypothesis can be defined, is more suitable for a deductive approach. For research into a topic that is new and which has little existing literature, the inductive approach is more suitable. A second important criterion is the amount of time available. Deductive research can be completed more quickly, albeit that time must be devoted to setting up the study prior to data collection and analysis. Inductive research is often based on a much longer period of data collection and analysis.

Deductive research can be a lower-risk strategy, albeit there are risks, such as the non-return of questionnaires. With inductive research the researcher has to constantly live with the fear that no useful data patterns and theory will emerge. Saunders, Lewis, and Thornhill (2003) added that the inductive approach is a more flexible structure that permits changes of the research emphasis as the research progresses. It is also less concerned with the need to generalise conclusions. The inductive approach emphasises gaining a close understanding of the research context. It also emphasises the collection of qualitative data. The deductive approach, on the other hand, is highly structured and more concerned with the need to generalise conclusions. It explains causal relationships between variables. It stresses control to ensure the validity of the data and the operationalisation of concepts to ensure clarity of the definition. It also has an emphasis on the collection of quantitative data.

In this research quantitative and qualitative data are used in complementary ways (Yin, 1994).

Quantitative data indicate relationships, while qualitative data are useful for understanding relationships revealed in the quantitative data (Eisenhardt, 1989). In addition, many aspects of the firm cannot be captured by quantitative data alone (Goddard, Mannion, & Smith, 1999).

1.5.2 Level of analysis

The privatisation process can be studied by applying one of the following approaches (Cook & Kirkpatrick, 1995). The first and commonly used approach is the micro-level approach. It is used to compare the firm performance before and after privatisation; see Megginson, Nash and van Randenborgh (1994). The micro-level approach is also used to compare the performance of privatised firms to that of the SOEs; see Omran (2004). A second approach to assess the impact of privatisation is the macro-level approach, used by Warren (1998). He examined the privatisation of Chile, Bolivia, Mexico, and Jamaica by focusing on the output, factor productivity, and GDP. A third approach to study privatisation is the program design and management approach (White & Bhatia, 1998). This approach is used to measure how well a program was conceived, planned, and executed; see Karatas (2001). The program design and management approach looks at firm selection, priority and preparation; see Ernst, Edwards, Gladstone, and Holt (1999). It also looks at the selection of privatisation methods, market development, legal advice, and the environment and organisation judgment, as pre-privatisation preparation; see White and Bhatia (1998). While the micro and macro approaches to examine the privatisation are about the outcomes of privatisation; the program design approach focuses on the process of privatisation. The outcomes of privatisation may be determined at organisational level in terms of 'privatisation outcomes' or at a macro level or in terms of GDP of a country.

For a number of reasons the program management and micro-level are chosen as complementary approaches to study privatisation in Libya. First of all, the research focuses on the sequencing of ownership change, competition, and regulation. To examine these reforms, issues related to firms and market restructuring prior to privatisation need to be investigated. These issues can be investigated by using the program design and management approach. This approach does not provide a full picture of the privatisation, however, and can even provide a misleading impression (White & Bhatia, 1998). Thus, more appropriate indicators of success are required. For this reason the micro-level approach was chosen to compare the firm performance before and after privatisation in order to determine how effective the privatisation has been in promoting performance improvement. Secondly, the research was conducted soon after the Libyan privatisation process was started. It is difficult to investigate the long-term objectives of privatisation in Libya. Finally, most of the SOEs in Libya were either already privatised or scheduled for privatisation, and therefore, there were no remaining industrial SOEs to be compared with privatised ones.

The firm performance is usually measured by measuring the profitability, output, operating efficiency, dividend payments, capital investment, and leverage (Megginson, Nash, & van

Randenborgh, 1994). But dividends, capital investment, and leverage are not directly linked to the firm performance; rather, they reveal the cash that is paid out to the shareholders, capital expenditure, and long-term debt, respectively (Brealey, Myers, & Allen, 2008). It is also unlikely that there will be large changes in capital investment during the short period of this research (Wu & Parker, 2007). For this reason, the present research limits the list of the performance measures to the simple ratios of profitability, output, and operating efficiency. The profitability shows how profitable the firm has been over the past years, while the operating efficiency shows how efficiently the firm is using its assets (Brealey, Myers, & Allen, 2008). The output shows the real sales adjusted to inflation (Megginson, Nash, & van Randenborgh, 1994).

1.5.3 Research method

Research strategy is defined as the coherent body of decisions about the way in which the research project is conducted (Verschuren & Doorewaard, 1999). Several different research methods can be used to carry out this research project, including:

- *experiment*: a classical form of research, differing from other research strategies in terms of the degree of control over the research situation (Yin, 2003), see also Saunders et al. (2003), Babbie (2004), Zikmund (2003);
- *survey*: provides the advantage of a quick, inexpensive and efficient means of data collection, see Zikmund (2003), Saunders et al. (2003, 2007), Verschuren & Doorewaard (1999), Babbie (2004);
- *desk research*: a quick method for gathering a large amount of secondary data, see Verschuren & Doorewaard (1999), Saunders et al. (2007);
- *case study*: an in-depth investigation suited to gain a rich understanding, see Yin (2003), Saunders et al. (2007), Verschuren & Doorewaard (1999);
- *grounded theory*: theory building through a combination of induction and deduction during extensive fieldwork, see Glaser & Strauss (1967), Saunders et al. (2003), Verschuren & Doorewaard, 1999;
- *ethnography*: an inductive approach aiming to describe and explain the social world, see Babbie (2004), Saunders et al. (2003), Yin (1994).

To select an appropriate strategy, Yin (1994) looked at the type of research questions, the control over behaviour events, and the focus on contemporary events (table 1.10).

Table 1.10: Relevant situations for different research strategies

Strategy	Form of research questions	Requires control over behaviour event	Focuses on contemporary events
Experiment	How, why	Yes	Yes
Survey	Who, what, where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes/ No
History	How, why	No	No
Case study	How, why	No	Yes

Source: Yin (1994: p. 5)

Yin (1994) argued that how and why questions are more likely to be addressed by the historical, experimental or case study strategy because these questions are more explanatory and deal with operational links that need to be outlined over time. However, the extent of control over the behaviour event and degree of focus on contemporary events can be used to distinguish among the historical, experiment and case study strategy. Experiments require control over the behaviour events that will be studied, because it may focus on a few variables and it can be used to manipulate behaviour directly. The historical strategy is preferred when there is almost no access or no control over the behaviour event because it is dealing with the past, but it can also be applied to a contemporary event; in this situation, it begins to overlap with the case study strategy. The case study is preferred for examining a contemporary event, but when the relevant behaviours cannot be manipulated. It relies on sources of evidence that are not usually included in the historian's repertoire. The case study's unique strength is its ability to deal with a full variety of evidence beyond what might be available in the conventional historical strategy. This research aims to obtain in-depth knowledge about the process of privatisation and, thus, provide a detailed snapshot of the privatised firm and obtain a better understanding of the privatisation process. The objective of this research is also exploratory rather than descriptive. It aims to answer 'how' questions that are more explanatory and deal with operational links that need to be outlined over time (Yin, 2003). Therefore, after an initial privatisation literature review, a case study approach will be followed.

1.5.4 Research design

Research design is defined as the methods and procedures for collecting and analysing the needed information (Zikmund, 2003). This section discusses the design of the empirical case study that is going to be used in the research. A case study can involve a single or multiple designs (Yin, 2003).

A multiple case study has several advantages over a single case study. First of all, analytical conclusions arising from multiple case studies are more powerful than those from a single case study. Secondly, powerful analytical conclusions from multiple case studies have immeasurably expanded the external generalisation of the findings, compared to those from a single case study.

A multiple case study design consists of embedded or holistic cases. Multiple embedded cases involve multiple levels of analysis within each individual case, while multiple holistic cases involve a single unit of analysis (Eisenhardt, 1989). With regards to the research objectives, this research involves a multiple holistic case design with a single unit of analysis (the process of privatisation). It also has several sub-units of analysis which are the SOEs that were privatised during the process.

Case selection

Swanborn (2008) provides insight into how cases should be selected. He discusses the methods of imposing selection criteria (typical for evaluative research with a limited domain or when only a few cases exist or are accessible), random (typical of surveys but less appropriate for case study research), pragmatic or convenience sample (due to distance, time and/or money), based on case characteristics, i.e. dimensional sampling. In the last case, the options are selection based on 1) homogeneous independent variables, 2) heterogeneous independent variables, 3) dependent variables, and 4) different stages in the development process (Swanborn, 2008). Following Swanborn (2008), a choice was made to select cases based on homogeneous independent variables. Swanborn (2008: 61) states that in circumstances where a model is new or has only been tested sporadically (which is the situation in this research, see chapter 2), this homogeneous approach, where variance between cases is minimised, is recommended to determine whether a common model can be found for a homogeneous group of cases.

By the end of 2007, 80 public industrial firms were privatised (Alkdar, 2008) and 57 mother companies were liquidated via bankruptcy proceedings (Alfotesi, 2008). Based upon this total population of 80 firms that were privatised in Libya, homogeneous case selection was applied using four criteria. First, cases were selected based on a similar stage in the development process. That means they were privatised between August and December 2004; see Appendix C. This time-frame has at least three years of data after privatisation which allows for performance comparison before and after privatisation. At the same time privatisation was relatively recent so those data are expected to be still available. Also from practical usefulness experiences of most recent privatisations can contribute most to the latest insights. A second criterion for selection was the size of the company, measured by number of employees (Altoumi, 2001). This was limited to small and medium-sized companies. These companies are similar with regard to privatisation, whereas larger companies are much more complex, and the impact of privatisation on large firms might not fully occur until many years after privatisation (Villalonga, 2000). Third, the geographic area was limited to Tripoli and its surrounding areas. This is because this area is the most industrialised cluster in Libya. Fourth, the privatised companies had to continue operations, at least for some time, and remain in the same business. Some of the privatised companies changed industries, while others were eventually closed. These case selection criteria reduced the original population of 80 firms to nine potential case study companies (table 1.11).

Table 1.11: Potential case study companies

	Company	Date of privatisation	Fixed asset	Employee before (n)	Employee after (n)	Location
1	Tin Can Factory (TCF)	11/08/2004	1,026,302	106	85	Aljfara
2	Infant Food Processing Factory (IFPF)	30/08/2004	307,274	56	24	Aljfara
3	Al Mansuora Condiment Factory (ACF)	18/12/2004	598,139	76	58	Aljfara
4	Furniture Factory, Misurata (FFM)	18/12/2004	2,820,302	153	63	Misuratah
5	Biscuit and Sweets Factory, Misuratah (BSFM)	11/08/2004	337,062	75	46	Misuratah
6	Fruit and Vegetable Factory (FVF)	30/08/2004	1,312,532	108	70	Aljfara
7	Fish Canning Factory (FCF)	18/12/2004	342,425	36	12	Sabratha
8	Metal Works Complex, Misuratah (MWCM)	18/12/2004	328,982	73	21	Misuratah
9	Trailer Complex (TC)	18/12/2004	289,306	122	83	Tripoli

Source: GBOT (December 2004: p. 22)

Each of these nine companies was contacted. Unfortunately, five of the companies (FVF, BSFM, FCF, MWCM and TC) did not have sufficient records of the privatisation process, or they were unable to cooperate, making them ineligible for this research. This resulted in four cases that were analysed for this research. These firms are Tin Cans Factory (TCF), Infant Food Processing Factory (IFPF), Al Mansuora Condiment Factory (ACF), and Furniture Factory, Misurata (FFM).

Data collection and analysis

To collect the necessary data for this research, qualitative and the quantitative data were combined (Yin, 1981). The qualitative data are used as a basis for understanding the underlying relationship revealed in the quantitative data. The quantitative evidence is expected to strengthen findings from the qualitative data (Eisenhardt, 1989). To obtain background information, a variety of documents were studied, covering periods before, during, and after the privatisation (Erakovic & Wilson, 2005).

In-depth interviews were conducted to reveal and clarify dynamic issues that could not easily be discerned from documents. The interviews aimed to gather information that helped to interpret and validate the results obtained from other sources. Two groups of respondents were interviewed. The first group consisted of government officials. They were asked open-ended questions about the process of privatisation and its progress. The second group of respondents included managers and workers of the selected firms (Hu, Song, & Zhang, 2004). They were asked open-ended questions about matters in their particular area of expertise (Erakovic & Wilson, 2005). This allowed us to investigate their opinions and the reasons for the firm's

restructuring and in turn to infer causal relationships between factors (Saunders, Lewis, & Thornhill, 2003). Since the official language in Libya is Arabic, the interviews were conducted in Arabic and then translated into English. Observations were also made during the data collection phase. They included field notes about behaviour and activities (Creswell, 2003).

To address the expectations of the research, the data analysis consisted of categorisation of the data, unitising of the data, recognising relationships, and testing evidence (Saunders, Lewis, & Thornhill, 2003). If the patterns coincide, the results can help strengthen the internal validity (Yin, 2003). In this research three steps were followed to analyse the research data.

In the first step each case was described separately, in narrative form, to make meaningful sense of the data supplied by participants. These data were then examined through tabulation analysis to identify events within each case and tabulate their frequency of occurrence. During this step, quantitative data were also analysed by using an exploratory and descriptive data analysis approach. This approach emphasises the use of diagrams to explore and understand the quantitative data. This approach was selected because it formalises the common practice of looking for other relationship in data which were not initially designed to be tested. To compare the highest and lowest performance values, multiple bar-charts were used (Saunders, Lewis, & Thornhill, 2003). The pre- and post-privatisation performance measures of the cases were compared. First, profitability, output, and operating efficiency for each case were computed over a period of six years, three years before through three years after privatisation. The year of privatisation (2004) was excluded from the calculations. The condition for any case to be included is that at least two observations are available for each case. Thus, a performance time line that reflects the operating results from the last three years of state ownership through the first three years as a privatised entity was developed.

In the second step, tabulation analysis was used to compare the cases with the research expectations to identify sequential patterns. The tabulation data were used to link the factors with the firm's performance. In the third step, a cross case analysis was conducted to identify similarities and differences between the sequential patterns. By analysing within and across cases, the research provides insights into the privatisation process. A key analytic theme is the restructuring actions taken during and after the ownership change and how they are linked to the change in the firm performance.

Validity and reliability of the research findings

The quality of the case study findings was evaluated by using the following tests during different phases of the empirical research (table 1.12).

Construct validity refers to the establishment of the correct operational measure for the concepts under study. Three tactics are usually used to increase the construct validity. Multiple sources of evidence include multiple interviews with the same manager, observations, and documentation. A chain of evidence is also established to help the reader follow the case from the end back to the beginning and vice versa. Finally, a draft case study report is reviewed with the key

informants.

Table 1.12: A case study tactics

Tests	Case study tactics	Phase of empirical research
Construct validity	Use multiple sources of evidence Establish a chain of evidence Draft a case study report, which is reviewed by key informants	Data collection Data collection Competition
Internal validity	Do pattern-matching Do explanation-building Do time-series analysis	Data analysis Data analysis Data analysis
External validity	Use multiple case studies	Research design
Reliability	Use case study protocol Develop a case study database	Data collection Data collection

Source: Yin (1994: p. 34).

Internal validity refers to the establishment of a causal relationship, where certain conditions are shown to lead to other conditions, as distinguished from spurious relationships (Yin, 2003). *External validity* involves establishing the domain to which a study's findings can be generalised. In this regard, multiple case studies that resulted in multiple observations for each predicted relationship are usually designed (Eisenhardt, 1989). *Reliability* refers to demonstrating that operations within the study, such as the data collection procedure, can be repeated and lead to the same results. The aim of reliability is to minimise errors and biases in the case study. In this respect, a case study protocol is usually developed to ensure that the same approach is used in each case and to clarify for other researchers the steps that were followed in the research (Yin, 2003).

The case study was conducted in the four newly privatised firms over a period of six months that was divided into two field-study periods. The first three-month field study took place from June to August 2007. The second three-month field study period extended from December 2008 to February 2009. To ensure the quality of the research findings, a case study protocol was developed that contained the procedures and rules to be followed. The research started by studying a variety of documents covering the entire privatisation period. The aim was to obtain background information on the privatisation process in general and each company in particular. The secondary aim was to uncover any evidence of performance improvement or decline after privatisation. Documents that were studied included publications on the privatisation progress such as magazine articles, legislation, a list of privatised companies, and articles of incorporation. The official reports prepared by the government and annual country reports published by the IMF were also reviewed. The financial statements and internal reports were also examined. Data items such as net income, sales, total assets, and total debt were collected to examine the impact of privatisation on profitability, output, and operating efficiency.

After the study of the documents, in-depth interviews were conducted with managers and government officials. The purpose of the interviews was to gather additional data that helped to

describe issues that were not easily interpreted from documents. Three managers were interviewed from each company (appendix D). They were asked open-ended questions about restructuring activities and firm performance around privatisation. Six government officials who participated in the privatisation process were also interviewed. They were also asked open-ended questions on the privatisation process in general and restructuring activities in particular. Interviews were tape recorded and immediately transcribed. Some case study reports were reviewed by the interviewees to validate the results. During the case study, observations were made about aspects of what was happening inside each company after privatisation.

Research significance

The present research focuses on the relationship between the privatisation process, its related reforms, and the performance of the privatised firms. This focus is supported by Wallsten (2002) and Cook and Minogue (2002), who argue that the literature has recently moved beyond the privatisation debate to the more complex discussions of pre-privatisation institutional reforms. These reforms have important implications for the success of privatisation in general and the performance of the privatised firms in particular (Zahra, Ireland, Cutierrez, & Hitt, 2000). By focusing on this debate, the research provides a useful contribution to the literature.

The research concentrates on developing countries where the institutional framework for regulation is underdeveloped. Privatisation in these countries is seen as part of structural adjustment programs involving concomitant macroeconomic and institutional reforms (Boubkri, Cosset, & Guedhami, 2005). It may be expected that the impact of privatisation, competition and regulation in these countries will be affected by why and how the policies are introduced (Zhang, Parker, & Kirkpatrick, 2005). More specifically, the research concentrates on Libya, as this country is now at a turning point from a socialist to a market-oriented economy (IMF, 2007). This means that privatisation is used in this country to aid the creation of an environment conducive to the development of a private sector. Therefore, the research results are useful to illustrate how the sequencing reforms of ownership change, competition, and regulation have been implemented in this particular country.

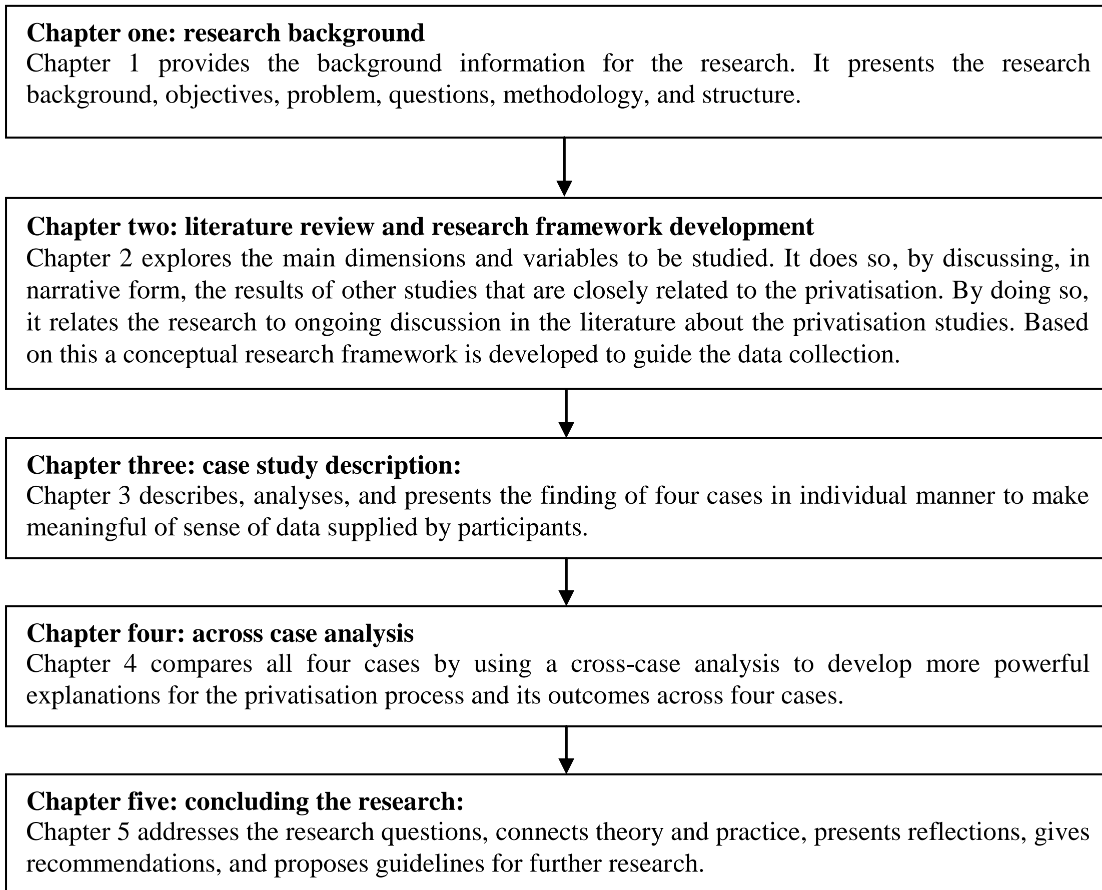
The research is also important to provide insight to both the Libyan government and managers of some of the privatised companies. Libyan policymakers and the managers of the privatised companies need feedback and guidance on the impact of privatisation and how this is shaped by their decisions and actions. The government is expected to benefit from knowing the impact of their actions on the society it serves. The managers of privatised companies can also benefit from knowing more about the influence of privatisation on the performance of their businesses.

1.6 Structure of the dissertation

This chapter clarifies the research topic, the relevance of this topic, and the methodological aspects. A theory-oriented approach was selected as the appropriate one to follow in this research. It also combined inductive and deductive approaches. Information was presented on the selection of Libya and the choice for the program management and micro-level as complementary approaches to assess the privatisation process.
The case study method was selected from six alternative research strategies as the most appropriate strategy for the field study. Based on homogeneous case selection by using four criteria, four recently privatised firms were chosen. To ensure the quality of the research findings, the chapter highlighted case study tactics that were used during different phases of the research. These tactics included multiple data sources, pattern-matching logic, multiple case studies, and a case study protocol.
The structure of the dissertation follows five steps. The first step outlines an overview of the research, as introduced in this chapter. The second chapter provides a literature review to obtain knowledge that will help to explore the dimensions and variables that need to be studied in the field study. The literature is reviewed in narrative form and divided into two parts. The first part is more general in nature and focuses on three elements. The first element focuses on the debate that was conducted during the early stage of privatisation in the 1990s. Based on those results, the second element focuses on influential factors related to the privatisation process. The third element focuses on the recent debate about privatisation. In the second part of the literature review, a conceptual research model is developed. The development of such a model starts by reviewing several successful privatisation experiences in other countries to identify general steps and activities that were undertaken to complete the privatisation process. Next, those steps were elaborated in detail by identifying the activities undertaken for each step. Finally, influential factors were applied to the research model in order to make meaningful sense of it. To make the model operational, each step of the process was elaborated in detail with regard to the interaction between activities and influential factors at that step. Thus, the process of operationalisation and measurements is discussed. Some research expectations were formulated to narrow the focus down as well as to provide guiding tools for analysing the research findings.
In the third chapter, the conceptual research model is applied to the four case studies. In the next chapter, the four cases are compared by using a cross-case analysis to identify any similarities and/or differences between them. The aim is to develop explanations for the privatisation process and its outcomes across four cases. The chapter provides a comparative analysis of the cases in light of the research expectation and a conceptual research model.
Finally, based on the cross-case analysis results, chapter five addresses the research questions, connects theory and practice for the firms involved in the research, presents reflections, gives recommendations, and proposes guidelines for further research on the privatisation process in Libya.

This outline is schematically presented in figure 1.1.

Figure 1.1: The outline of the research activities and the chapters



CHAPTER 2: LITERATURE REVIEW AND FRAMEWORK DEVELOPMENT

In this chapter, a literature review is presented to explore the research questions posed in chapter 1. Section 2.1 (phases) and section 2.2 (factors) deal with the first research question about the process of privatisation, while section 2.3 deals with the second research question about performance before and after privatisation (the third research question can only be answered by the field study). Based upon the literature review, a conceptual framework is developed in section 2.4 as a framework for the data collection in the field study.

2.1 Phases in privatisation

To gain insight into the different phases of privatisation processes, successful privatisation experiences in four different countries, i.e. the UK (2.1.1), Mexico (2.1.2), Zambia (2.1.3) and Morocco (2.1.4), is discussed. Based on the privatisation literature and different cases in developing economies, a descriptional framework for evaluation will be developed

2.1.1 British experience

The British experience is generally considered the first large privatisation program, and its perceived success has caused governments around the world to model their own policies after it. The shareholders of the firms that were sold, the employees, most of the customers and the whole nation benefitted from it. That is why the British privatisation process has been considered a success (Moore, 1986). Moore, who played a significant part in it, briefly outlined the typical steps in the British privatisation program:

The first step dealt with a study that was undertaken to identify privatisation candidates and to obtain parliamentary authority. The second step considered the selection of a merchant bank for advice leading up the sale. During this step, the SOEs were being prepared for survival in the private sector. The preparation included strengthening of management and the introduction of private sector attitudes and methods. This meant the injection of new talent, introducing new systems, and re-orienting the business to recognise that its survival would depend on the service provided to customers. Legislation was also prepared to unwind the public firm and regulate the monopoly business. In the third step adjustment of the balance sheet was considered. The fourth step dealt with producing a pathfinder prospectus, advertising, and selling the SOEs.

Ramanadham (1988) discussed inferences from the UK experience in privatisation to gain some lessons for developing countries. Ramanadham (1988) stated that the process of privatisation had been preceded by certain types of preparations. Firstly, government measures had already been imposed for a long time which drove the SOEs under the rigorous impact of market surrogates like targets, performance and external financing limits. In contrast with Moore (1986), Ramanadham (1988) argued that these measures were not meant as a step in the process of

privatisation. Secondly, for a period of two years prior to the privatisation, several SOEs were engaged in internal changes that decentralised operating behaviour and reduced excess labour in SOEs that were marked by excessive labour. Several SOEs were financially restructured, and capital write-offs and fresh cash injections took place. The balance sheets thus became attractive. In addition, certain informal measures that ensured the success of privatisation were taken. These changes were made to attract a variety of potential applicants, institutions, or investors. Thirdly, advice was taken from a number of merchant banks on the techniques of selling, the price to be fixed, the time of the share offering, and its parcelling among the major potential category of applicants. Finally, media publicity was planned well, and the sheer logistics of applying for share ownership was simplified. Accordingly, the process of the British privatisation can be divided into four steps (table 2.1).

Table 2.1: British privatisation process

Step	Activity
1	Conduct studies to identify possible SOEs for privatisation
2	Restructure the SOEs, legislation, and regulation and prepare the SOEs and their market for privatisation
3	Valuation of the SOEs
4	Final decision of sale

2.1.2 Mexican experience

The second privatisation success story is the Mexican experience. The most important aspect of the Mexican story was the comprehensive reform program covering liberalisation, relaxation of rules governing foreign and domestic investments, and deregulation (Galal, Jones, Tandon, & Vogelsang, 1994). Another key aspect was the process of learning from earlier mistakes. The state started with small and competitive firms where there was a limited chance for large errors, before moving to complex firms where there were important regulatory issues, and mistakes could be more costly (Kikeri, Nellis, & Shirley, 1992).

In a study of the privatisation of 361 Mexican companies, Lopez-de-Silanes (1997) undertook a detailed evaluation of restructuring activities that were completed by the Mexican government prior to privatisation. Firstly, a management shake-up; getting rid of an old team may actually improve results or reduce the financial squandering often associated with the SOEs. Secondly, labour cutbacks and change in worker contracts. Thirdly, absorption of outsiders' debt; the government was willing to consider absorbing debt when an SOE faced large financial costs or was at the stage of bankruptcy. The idea was to let the firms start their life with a clean slate. Fourthly, an efficiency program to improve the performance of the SOEs before privatisation. Upgrading efficiency may solve the main problems of the SOEs and improve performance. Fifthly, investment measures, the government may invest in the SOEs before privatisation to avoid shutdowns and reduce unemployment, or to support sectors that supply basic goods or services. Finally, de-investment measures or incurring investments to transform large firms into

viable smaller units that may be a better match to specialised bidders.
Lopez-de-Silanes (1997) does not provide a full list of the relevant procedural aspects, as he places emphasis on one aspect of the privatisation process: a firm restructuring before the change in ownership. However, the author provides interesting guidelines for what type of restructuring might be taken before the sale of the firm (table 2.2).

Table 2.2: Mexican process dealing with restructuring before privatisation

Step	Activity
1	Management shake-up
2	Labour cutback and worker contract renegotiated
3	Absorption of outsiders' debt
4	Efficiency program to improve performance of SOEs before privatisation
5	Investment measures
6	De-investment measures

2.1.3 Zambian experience

The third privatisation success experience comes from Africa, namely Zambia. By 1996, the WB considered the Zambian privatisation process as the most successful program in sub-Saharan Africa. It was driven from strong political goodwill and support. Zambia has also attracted a large number of foreign investors, including previous owners of the firms (Musambachime, 1999). White and Bhatia (1998) identified additional factors that contributed to the success of Zambian privatisation. Sufficient resources were invested in careful program design and preparation. The process was supported by appropriate legislations, and the private sector took a leading role in the process. The Zambian Privatisation Agency (ZPA) had the legal permission to execute its function, it had sufficient resources, and it was able to undertake its work with minimum political interference. The process was transparent and well supported by donors that coordinated their assistance. The government took decisive action to reduce constraints on privatisation, notably by addressing the weak capital market and eliminating the influence of holding firms. Important steps were taken to inform the public about the program and to encourage Zambian participation in the process.
Fundanga and Mwaba (1997) reviewed the Zambian privatisation process to examine the major tools and mechanisms applied in privatising the Zambian public sector. They highlighted the achievements and constraints faced by the authorities. They assessed the impact of privatisation on government resources, divestiture timing, extent of foreign participation, and issues relating to employment generation. In May 1990, following a statement from President Kaunda, the government decided to sell some of the SOEs. The modalities for sale were studied, include the possibility to sell some shares to the public workers. In September 1990, the government set up a task force on privatisation that submitted its report to the minister in January 1991. It suggested the creation of a steering committee responsible for the privatisation policy, and a technical committee in charge of the actual privatisation activities. By June 1991, the steering committee

had identified 10 firms for outright sale. To facilitate the process, the government passed the necessary legislations. In July 1992, the ZPA was established as the exclusive institution responsible for the sale of the SOEs. The ZPA was granted autonomy to determine how the SOEs were to be privatised and set the price for the company. Once the ZPA started to work, a number of activities were undertaken before the actual privatisation. Grouping the SOEs was approved by the cabinet, while technical and financial evaluations of the SOEs, to fix the price and suggest the mode of sale, had been done by consultants. Decisions on price and sale mode, advertising, and opening up the competitive bidding were done by the ZPA, while finalising and signing the sale were done by the finance minister.

The analysis of Fundanga and Mwaba (1997) revealed that Zambia's privatisation program made satisfactory progress and was relatively successful. It was driven by strong political goodwill and support. An unusual political consensus to move ahead with the transition to a market economy was gradually built among all interested parties, including political groups, the business community and the civil society. This highlights the need to involve all parties in the process and to ensure ownership of the program at all levels. Zambia also attracted a significant number of foreign investors including previous owners of some firms. The majority of these firms belonged to organisations that were at the leading edge of business and in a position to introduce new technology design to increase productivity. Based on the above, five steps to privatise the Zambian public sector can be identified (table 2.3).

Table 2.3: Zambian privatisation process

Step	Activity
1	Announcement
2	Identifying candidates
3	Creation of privatisation agency for managing the sale of SOEs
4	Evaluation activities to fix the price and suggest the sale method
5	Final decision of sale

2.1.4 Moroccan experience

The fourth privatisation success story comes from North Africa, from Morocco which is a neighbour country of Libya. Morocco's privatisation process is generally regarded as a successful program in terms of scope and performance. It was implemented by relying on outside consultants to prepare the process. This method was expensive, but it was quick and resulted in a high-quality work (Ernst, Edwards, Gladstone, & Hitt, 1999). The US Agency for International Development (USAID) sponsored a study conducted by Ernst, Edwards, Gladstone, & Hitt, (1999) to assess Morocco's privatisation process, its impact and its influential factors. USAID saw Morocco as an ideal testing ground for an appraisal of the impact of case-by-case privatisation in a mixed economy. The study assessed the privatisation outcomes by looking at the number of privatised firms, the value of assets transferred to the private sector, gross and net proceeds, distribution of shares sold, and the provisions of the sales contracts signed.

Ernst Edwards, Gladstone, & Hitt, (1999) concluded that Morocco allocated significant resources, including the creation of a new ministry dedicated to the task of privatisation, and received additional support from donors. By relying on consulting firms and investment banks, the government controlled these resources. The program contributed significantly to the improvement of the efficiency of economic institutions. It had a major impact on the development of the Casablanca Stock Exchange in terms of market capitalisation, trading activity, participation, corporate governance and performance. Privatisation also provided the impetus for improving financial disclosure standards and regulatory reforms. Analysis of a sample of firms suggested that the financial performance of the privatised firms improved, but no significant shifts in the financial indicators were found. Unfortunately, the study does not provide a clear structure of the process. For that reason a study by Shehadi (2002) is included here to complement Ernst, Edwards, Gladstone, & Hitt, (1999).

Morocco's privatisation program was launched in late 1989 with the passage of Privatisation Law no. 39. The law defines the Ministry of Privatisation as the main institution responsible for managing the process, bringing consultants and investment banks in as needed. The transfer committee, whose five members were appointed by the king, advised the Ministry of Privatisation. An independent valuation authority composed of seven members was also appointed by the king. It was charged with reviewing the firm valuation and setting a minimum price. The role of these institutions, imbued with the authority due to the royal appointment, was seen as critical in guaranteeing the transparency and integrity of the process.

The process started with relevant studies that were conducted to select SOEs for privatisation. The selected SOEs had to meet certain criteria: actual profit, absence of serious overstaffing, no public service responsibilities, and a significant share of state ownership. In drawing up the list for parliamentary approval, the government sought to choose the better prospects among competitive tenders, public share issues, private placement and sales to workers. The result was a list of 114 target firms to be privatised by the end of 1998. This step ended with the submission of a report of sale options to the transfer commission for approval. The second step was about preparing the SOEs for sale through auditing and valuing activities. Much of the technical work was handled by investment banks and financial advisers through working with management, shareholders, and the ministry. This step ended when the transferring commission received a final audit and valuation to finalise conditions for sale. In addition, the post-privatisation obligations of investors were established in a document that became part of the sales contract. The obligations primarily covered investment and employment. The third step involved a public announcement of a prospectus and a bid valuation. It considered some criteria such as the price offered, the qualification of bidders, and the proposed business plan. The final step was the actual payment. The government used a combination of regular bonds and convertible bonds. Holders of these bonds could exchange them for shares in privatised companies. These holders had priority over cash purchasers. This step ended with the sale announcement via the press. Accordingly, as shown in table 2.4, Moroccan privatisation can be conceptualised into four steps.

Table 2.4: Moroccan privatisation process

Step	Activity
1	Identify candidates
2	Preparing candidates for the sale through auditing, valuing and finalising the conditions for sale
3	Advertising campaign and bid valuation
4	Sale announcement and closure

2.1.5 Conclusion about phases

On the basis of the experiences discussed, the process of privatisation can generally be conceptualised into four stages. One stage occurs before the actual privatisation process: the feasibility studies that are necessary before the process of privatisation can be started. The privatisation process contains three stages: preparation, valuation, and a sale stage. Figure 2.1 illustrates these stages and their sequence. This information will be used and further developed in section 2.5 where the conceptual research framework is developed.

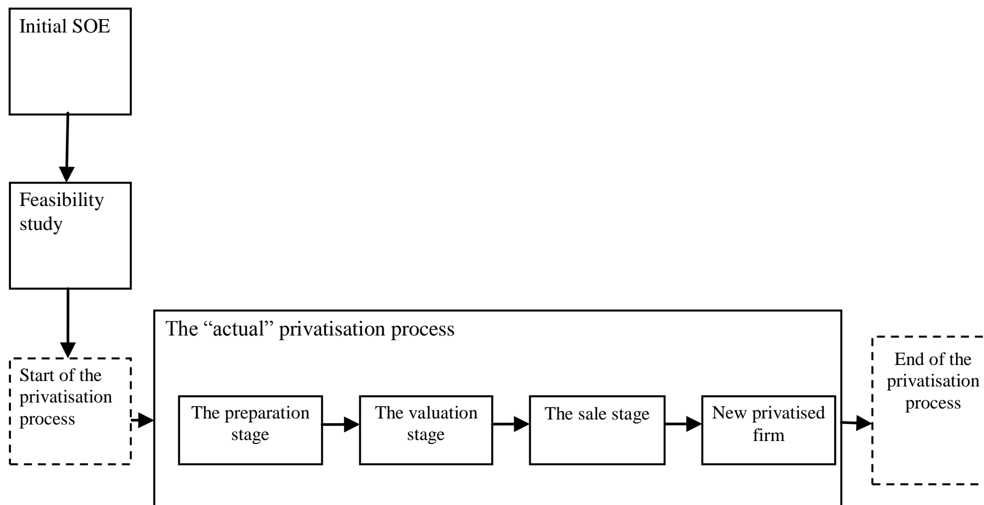


Figure 2.1: Stages in privatisation process

Feasibility stage

This initial stage usually starts after the announcement and before the beginning of the actual privatisation (Ramanadham, 1994). It involves a study that is typically undertaken by merchant banks, consultant teams, or even civil servants to investigate the SOEs and provide feedback on the possibilities, options, and prerequisites of any sale (Moore, 1986). This feasibility stage can therefore be viewed as necessary to assist the government to determine which SOEs should be privatised and how (Nellis & Kikeri, 1989). The feasibility stage ends with the granting of parliamentary authority for both the choice of options and the creation of a privatisation agency (Kayizzi-Mugerwa, 2002). This can be considered as the start of privatisation.

Preparation stage

Following the establishment of a parliamentary authority, the first stage of the actual privatisation process begins. This stage includes restructuring activities that are intended by governments to prepare the SOEs for sale and to create an effective market environment for privatisation. The SOEs usually have excess employees and large fiscal debt, and they suffer from a lack of sufficient entrepreneurial capabilities. Thus, their preparation prior to sale is necessary to ensure that they can operate effectively in a market-oriented economy without state support and to make them more attractive for private investors (Moore, 1986). The restructuring of the SOEs is also seen as necessary in order to command a higher price for the firm (Cuervo & Villalonga, 2000). The market in which the SOEs operate must also be restructured to protect investors from arbitrary political actions and to protect the consumers from the abuses of monopoly power (Kikeri & Nellis, 2004). Market restructuring is a task of undoing the monopoly regime to ensure successful privatisation (Parker & Kirkpatrick, 2007). This stage ends when the market and the SOE candidates are prepared for privatisation.

Valuation stage

Once the candidates become eligible for privatisation, the second stage of the actual privatisation process begins. It is about assets valuation to determine the market value of the SOE that will be used as a bench-mark against market values that are submitted by potential buyers (Fundanga & Mwaba, 1997). The market value is the present value of future cash flow discounted at an appropriate risk-adjusted rate (Buchanan & Bowman, 1990). This stage ends once the market values of the SOEs to be privatised are established.

Sale stage

Once the market value of the SOE candidates is determined, the third and final stage of the process starts. This is about the decision for the SOEs divestiture (Megginson & Netter, 2001). This step usually starts with advertising SOEs that are ready for privatisation to attract investors. It ends with the signing of the sale of the company (Fundanga & Mwaba, 1997). This results in the new privatised firm, which marks end of the privatisation.

2.1.6 Sequencing issues

Issues of sequencing have been debated since the late 1980s when former communist countries began their transition to market economies (Zhang, Parker, and Kirkpatrick, 2005). Key questions are: should one privatise before or after restructuring, or should both proceed simultaneously? Should there be a fixed sequence in the privatisation process? If so, what principles should underlie this sequencing (Roland, 1994)? Many transition economies have favoured fast privatisation, with no definite sequencing, as the only realistic method to combat the inevitable problems associated with the lack of corporate governance. It was believed that restructuring is best left to private owners and that market institutions would be built after the firms were controlled by the new owners (Roland, 1994; Wallsten, 2002). In recent years, however, researchers have argued for the importance of restructuring before the sale of the company. First, an institutional infrastructure that is favourable to market exchange (including a competitive industrial structure and an appropriate regulatory system) should be established. This was influenced by growing evidence from the industrialised economies, such as the UK, that privatisation alone was insufficient to stimulate performance improvement (Zhang, Parker, & Kirkpatrick, 2005). The importance of the institutional infrastructure was also influenced by disappointing results from privatisation in some transition economies such as Russia and the Czech Republic (Shirley & Walsh, 2000).

Wallsten (2002) examined the effects of sequencing of reform in the telecoms sector by using panel data from 200 countries for 1985-1999. He tested the effects of establishing a regulatory authority prior to privatising incumbent telecommunication firms. The findings are consistent with the contemporary perception of liberalisation and privatisation issues, showing a positive correlation between the establishment of a regulatory authority before privatisation and the improvement of telecommunications investment and telephone penetration rate. Wallsten (2002) found that countries that created separate regulatory authorities prior to privatisation saw increased telecommunications investment, fixed telephone penetration, and cellular penetration compared with countries that did not. Moreover, he found that the investors were willing to pay more for telecom firms if the regulatory reform had taken place prior to the privatisation process, since the established regulatory environment was expected to prevent the future administrative and legal uncertainty of regulation.

Springdal and Mador (2004) analysed the privatisation literature to develop a model for the organisational process involved in a successful privatisation. The model identified four stages in the organisational development of privatised firms: initiation, problem-solving, consensus-building, and consolidation. It also identified three processes which consolidated the model's stages: a regulatory, normative, and cognitive process. Regulatory processes are affected at the initiation and problem-solving stages by aspects of the product market and labour and management market. Normative processes are set in full motion during the consensus-building stage. However, this is dependent on entrepreneurial factors, strong and institutional leadership which enjoys continuity and succeeds in linking the survival of the firm to the proposed changes.

The cognitive process acts as the seal on the whole process and ensures that changes are made, norms and values introduced, while the new power configuration formed can last and be reproduced over the years.

Zhang, Parker, and Kirkpatrick (2005) examined the effect of the sequencing between privatisation, competition and regulation reforms in the electricity generation sector. They used data from 25 developing countries for the period of 1985-2001. The primary performance indicators used in this study were net electricity generation per capita of the population, installed generation capacity per capita of the population, electricity generation to average capacity and net generation per employee. Zhang, Parker, and Kirkpatrick (2005) found that establishing an independent regulatory authority before privatisation is associated with higher electricity availability and more generating capacity. Introducing competition before privatisation appears to bring about favourable effects in terms of service penetration, capacity expansion, capacity utilisation and capital productivity. The results confirm that single reforms, in particular privatisation alone, may well disappoint. It seems that the sequencing of reforms or more specifically the order of introduction of privatisation, competition and regulation matters.

The review of sequencing studies suggests that the field still deserves additional research, and findings on some issues are limited and inconclusive. In particular, there is much work to be done on the details of how privatisation, competition, and regulation are related and how their combination impacts the key success factors in particular industries. It is also unclear to what extent the pace of these reforms matters. Several authors have pointed out this need for further research in this field: Ramamurti (2000), Aussenegg and Jelic (2002), Wallsten (2002), and Zhang, Parker, and Kirkpatrick (2005). The debate on the sequencing issues has drawn attention to the importance of appropriate sequencing within reform programs (Zhang, Parker, & Kirkpatrick, 2005).

2.2 Influencing factors

The steps in the privatisation process are influenced by a number of factors. To structure the discussion, they are classified as economic, political, and additional factors. Table 2.5 provides an overview. In the following sections these factors will be discussed.

2.2.1 Economic factors

Privatisation is largely considered a response to the economic crisis and the poor performance of SOEs (Gratton-Lavoie, 2000). The economic factors are separated into macroeconomic factors, institutional factors and microeconomic factors.

Macroeconomic factors

Financial pressures

The financial deficit and foreign debt are the most important motives for privatisation in most developing countries (Seock, 2005). As a result of the oil crisis in the 1980s, the governments of both rich and poor countries found themselves with large budget deficits. It was difficult for those countries to squeeze money out of taxpayers and investors at home and from lenders abroad. This turned privatisation into a serous option to improve their short-term cash flow (Ramamurti, 1992). For instance, in the late 1980s, the Hungarian government implemented a privatisation program to reduce the deficit of its state budget (Louzek, 2005). Ghana and Mexico also experienced a fiscal crisis before launching their privatisation process (Shirley, 1999).

The fiscal condition of the country can also influence the pace of the privatisation process (Boehmer, Nash & Netter, 2005). The lack of budgetary resources to finance the contingent debt of the divested firms (mainly the provision of severance pay for laid-off workers) slowed down a privatisation process in Turkey (Karatas, 2001).

International pressures

Privatisation has also been associated with international pressures applied by international lending agencies. Most of the developing countries approached these agencies to finance their external debts (Manzetti, 1994) and therefore grew more dependent on those donors. The international lending agencies made their credit dependent upon the adoption of an economic transition from a command to a market economy (Boorsma, 1994). The notable example is Jordan's privatisation that was initiated in the late 1980s. The country, unable to service its $8 billion external debt in 1989, came under pressure to implement structural reform as part of its program with the international agencies. Similarly, the privatisation of 1991 in Egypt was part of the package of measures that were agreed upon between the IMF and the Egyptian government to access the fund (Kauffmann & Wegner, 2007.

Institutional factors

The institutional or meso-level factors, are the direct environment around a firm (De Boer, 2005).

Market development

The practice reveals that a wide variety of methods has been used to privatise the SOEs (Cook & Kirkpatrick, 1995). The choice of an appropriate method depends on the market development (Zahra, Ireland, Cutierrez, & Hitt, 2000). Public share offerings often require a well-developed market (Mahoobi, 2003). In the UK, where the market was already developed, British Gas shares were offered on the stock market (Pirie, 1988). However, public offerings have also been used as a policy to develop the market (Mahoobi, 2003). The Egyptian government, for instance, created the Cairo stock exchange as a financial means to privatise the SOEs (Awadalla, 2003). Mass

privatisation has been preferred by countries such as the Czech Republic and Poland where the market was not well-developed. It leads to a greater degree of privatisation in a short period of time and thus helps to develop capital market institutions (Anbarci & Karaaslan, 1994).

Market Liberalisation

Market liberalisation is one of the government policies for opening up the economy for foreigners to invest in the country (Clifton, 2000). The success of privatisation of Kenya Airways was ascribed to the partner Royal Dutch Airlines (KLM). It gave Kenya Airways many advantages in marketing and training (Debrah & Toroitich, 2005). The most important aspect behind the success of Mexican privatisation was the comprehensive reform programs including trade liberalisation (Galal, Jones, Tandon, & Vogelsang, 1994). The significant performance improvements of public and private Egyptian firms were also attributed to the economic reform program that was adopted by the government (Omran, 2004).

Competition

Competition is crucial for the development of the private sector and, thus, for the success of privatisation (Kikeri & Nellis, 2004). The meaning of competition and the way in which it is perceived to work and contribute to efficiency gains are subject to different views. The classic concept of competition is built on a behavioural approach. It implies that competition is a process of rivalry between participants in the market who would compete by changing the prices in response to the market condition, thus eliminating excessive profits and unsatisfied demand. The neoclassical view of competition is built around the importance of different market structures. This implies that a market could be defined as competitive when there are a large number of sellers of a homogenous product, so that no sellers had enough market share to enable them to influence the product price by changing the quantity that they put onto the market (Cook, Kirkpatrick, Minogue & Parker, 2003).

Li and Xu (2004) documented that countries executing a full privatisation and competition experienced significant performance gains compared with countries that implemented less aggressive reform policies. Several studies argued that competition is a more important determinant of allocative efficiency than whether a firm is state or privately owned. Omran (2004) concluded that in a competitive environment, both state and private Egyptian firms had achieved similar performance levels. Bortolotti, D'Souza, Fantini, and Megginson (2002) stated that competition significantly reduces the profit, employment, and efficiency of 31 privatised telecom companies.

Regulation

Regulation is what is needed in the absence of competition. It is state intervention in economic decisions to organise the economic system (Foster, 1992). This simplifies the procedure for starting up new businesses, allowing them to make decisions in their own interest and to find the necessary funds and workers (Blanchard, Dornbusch, Krugman, Layard, & Summers, 1991;

Jackson & Price, 1994; Kikeri & Nellis 2004). Bortolotti, D'Souza, Fantini and Megginson (2002) documented that price regulation significantly increased the profitability of 31 telecom companies that were privatised over the 1981-98 time period.

Microeconomic factors

Performance of the SOEs

Governments consider the performance of the SOEs when contemplating their privatisation. According to the international financing institutions, the SOEs are inefficient, and privatisation is one of the most important policies to improve their performance (Seock, 2005). In 2005, Boubkri, Cosset, and Guedhami stated that privatisation led to a significant increase in profitability, efficiency, investment, output and, thus, improved the economic efficiency. In contrast, Aussenegg and Jelic (2002) documented a significant decrease in efficiency and output after privatisation.

Nature of the SOEs

Governments usually embarked on privatisation with a list of firms that remained totally or partially state-owned (Jones, Megginson, Robert, & Jeffry, 1999). These lists depend on certain criteria; some SOEs were considered strategic for national sovereignty and identity (Ramaswamy & Glinow 2000). These firms are usually concerned with issues like their contribution to fulfil market demands, create jobs, and meet the needs of the other sectors. Other SOEs are considered economically important. These firms are usually concerned with issues like their profit record, solvency, and operation cost (Zahra, Ireland, Cutierrez, & Hitt, 2000). Many African countries embarked on privatisation with a list of firms that remained state-owned (Kayizzi-Mugerwa, 2002). The criteria for selecting the SOEs for privatisation might also include their size and nature. Small, medium, and competitive firms might come first, assuming that their privatisation is simple and quick, involves little pre-restructuring, and is politically low-risk (Kikeri, Nellis, & Shirley, 1992). In the process of learning from earlier mistakes, the Mexican government started its privatisation with small and competitive firms that were relatively easy, before moving to more complex firms where there were important regulatory issues and mistakes would be more costly (Shafik, 1996). The process of learning is also common in sub-Saharan African countries, where many governments embarked on the rapid privatisation of small SOEs and balked when it came to large ones (Kayizzi-Mugerwa, 2002).

Ownership

Ownership refers to the possession of two rights: the right to control the firm and the right to operate the firm (Hansmann, 1990). Boubkri and Cosset (1998) documented significant post-privatisation improvements in most performance measurements. These improvements were attributed to the ownership only because the new owners placed greater emphasis on profit goals and carried out new investments that led to such improvements. The result of Oswald and Jahera (1991) indicated differences in the performance of manager-controlled and owner-controlled

firms. Frydman, Gray, Hessel, and Rapaczynski (1997) found that outside owners performed better than inside owners on most performance measures, and the impact of foreign investors appears to be no stronger than that of domestic outsiders. The overall study of Kocenda and Svejnar (2003) showed that foreign ownership leads to superior economic performance relative to domestic private and state ownership.

Organisational structure and restructuring

Privatisation is accompanied by organisational restructuring that refers to fundamental changes in the firm structure (Singh, House, & Tucker, 1986). This restructuring includes replacing top management, reducing labour, and improving the managerial incentives (Boubkri Cosset, & Guedhami, 2004). Omran (2004) concluded that significant performance improvements of both public and private Egyptian firms were partly attributed to the restructuring of SOEs undertaken by the government prior to privatisation. Organisational restructuring depended on how the firm was privatised and who the new owners were (Ramaswamy & Glinow, 2000).

Organisational chart

The SOEs are commonly highly structured by political concerns and tend to be associated with a strict hierarchy of accountability and centralisation plans (Parker, 1995a). This means that there is a high level of centralised top-down decision-making, involving long chains of command (Anderson, 1995). These structures are likely to be detrimental to survival in a new economic environment. Privatisation, therefore, is expected to lead to restructuring of the firm by reducing the centralisation and bureaucratic rules in order to ensure faster decision- making (Parker, 1995b).

Top management replacement

Management replacement is a crucial determinant of the performance gains after privatisation (Cuervo & Villalonga, 2000). Top management the executive chairman, the executive deputy chairman, the chief executive officer, or the managing director (Cragg & Dyck, 1999). The government of Kenya dismissed the entire board of directors, together with the chief executive, and appointed a new board by choosing the best and most able people in the country to manage the company (Debrah & Toroitich, 2005). Andrews and Dowling (1998) found a strong relation between performance improvements and management restructuring after privatisation. Management replacement is likely to be contingent on privatisation methods that determine who the new owners are and degree of political interference that remains after privatisation. In several Eastern European countries, control was left in the hands of managers who were mainly motivated to protect their own positions (Cuervo & Villalonga, 2000).

Employee reduction

SOEs tend to be overstaffed (Kranton, 1990). There were substantially more white-collar excess employees in SOEs than manual production workers (Bhaskar & Khan, 1995). Boubkri and Cosset (1998) documented significant increases in employment after privatisation. In contrast, D'Souza and Megginson (1999) documented a significant decline in employment after privatisation.

Incentives policies

The managerial incentives are policies that are applied to encourage managers to adopt particular types of behaviour that affect their own and their rivals' managers' actions (Sklivas, 1987). Major efficiency gains of 31 telecom firms resulted from better incentives and productivity rather than from the extensive firing of labour (Bortolotti, D'Souza, Fantini, & Megginson, 2002). Megginson, Nash and van Randenborgh (1994) stated that change in the compensation policies may provide incentives for the firm's workers to be more productive.

2.2.2 Political factors

Privatisation is an intensely political process as politicians determine not only whether privatisation goes forwards, but also how it is handled. It needs political initiation, support, and sustainable commitment (Ebeid, 1996). In addition to the economic factors, political factors also influence the process and outcome of privatisation (Boorsma, 1994). Political factors relate to all of the government decisions that are triggered by the decision to privatise (Villalonga, 2000). Debrah and Toroitich (2005) attributed the success of privatisation of Kenya Airways to the government's purpose not only to privatise but also to ensure a successful privatisation. Boehmer, Nash and Netter (2005) found that political factors significantly affect the decisions of bank privatisation in the developing economies. The following factors were identified as political factors that may influence the process and outcome of privatisation.

Government ideology

Privatisation is not totally rational because governments may have interests other than enhancing the efficiency gains. These interests are influenced by their ideological view (Börner, 2004). Beck, Clarke, Groff, and Keefer (2001) classified the economic orientation of the governments into right-wing (conservative, Christian, democratic, or right parties), those favouring less state control over the economy, and left-wing (communist, socialist, or leftist parties), those exerting more state control. The government ideological view is a factor in the choice of privatisation method (Zahra, Ireland, Cutierrez, & Hitt, 2000).

Privatisation might be a consistent policy for right-wing governments if the SOEs' shares are used for democratisation (Bortolotti & Pinotti, 2003). That could happen through the spread of shares over a large group of civilians, or via people's capitalism. It was mentioned by the governments of Britain, Eastern Europe and some developing countries (Boorsma, 1994).

Privatisation might also be consistent policy for left-wing governments if revenues are used for re-distribution (Bortolotti & Pinotti, 2003). That could happen in several ways: distributing shares for free or selling shares to civilians or employees for a price below the market value (Boorsma, 1994).

2.2.3 Additional factors

There are also some factors other than the economic and political factors that influence the privatisation process.

Opposition and debate

Lack of transparency can lead to a political reaction and is often associated with poor structure and high cost (Kikeri, Nellis, & Shirley, 1992). The Turkish privatisation process has shown slow progress over time due to a strong opposition exerted by senior bureaucrats and the labour union. They expressed serious concerns about the possible adverse cost of an increased small group of domestic and foreign companies that might arise as consequences of privatisation (Karatas, 2001). In most African countries privatisation has been superseded by a serious debate. The SOEs were seen as national possessions, worth preserving in the public realm and justified on the ground of employment creation. Thus, local opinion refers to the privatisation as a loss of resources to abroad and loss of independence (Kayizzi-Mugerwa, 2002).

Transparency of the process

Transparency means that the regulatory process is open to public scrutiny to understand the grounds for regulatory decisions and facilitate public consultations and challenges (Cook, Kirkpatrick, Minogue, & Parker, 2003). A transparent privatisation process requires professional technicians and a reliable and defendable valuation (Ebeid, 1996). The lack of transparency can lead to a perception, justified or not, of unfair dealings and to a popular outcry. This can threaten not only the privatisation but also the reform in general (Kikeri, Nellis, & Shirley, 1992). In Turkey there has been considerable delay and resistance in the privatisation of some of the SOEs because of doubts about the reliability of asset assessment (Karatas, 2001). In most of the African countries, many of the SOEs were non-operational at the time of privatisation, but the general public believed that the SOEs were worth much more than what the buyers were offering (Kayizzi-Mugerwa, 2002).

Table 2.5: Influencing factors of the privatisation process

Influential factors	Definition and description	Sources
Economic factors/ ECO-FAC		Seock (2005), Karatas (2001), Manzetti (1994)
1- Macroeconomic factors/ MACRO		
1.1- Country conditions/ COU-CON	Gross Domestic Production/ GDP	Country report IMF
The financial deficit/ FIN-DEF	Inflation/ INF	-----------------------
International pressures/ INT-PRE	Foreign debt/ FOR-DEB	Zahra et al. (2000), D'Souza et al. (2005), Hu et al. (2004)
2- Institutional factors/ INS-F		
2.1- Market development/ MAR-DEV	Developing Market/ DEV-MAR	The economic freedom of the world annual report Privatisation database
2.2- Market liberalisation/ MAR-LIB Trade liberalisation Financial liberalisation	New legislations/ NEW-LEGI	-----------------------
2.3- Competition/ COM	A number competitors/ NO-COM Entry cost of new firms / COS-FIR	Megginson et al. (1994), Zahra et al. (2000), Oswald & Johera (1991), Kocenda & Svejnar (2003), Barberis et al. (1996), Singh et al. (1986), Andrews & Dowling (1998)
2.4- Regulations/ REG	New legislations/ NEW-LEGI	
3- Microeconomic factors/ MICRO		
3.1- The performance of SOEs/ PER-SOE		
3.1.1- Profitability	Return on sales (ROS) Return on asset (ROA) Return on equity (ROE)	
3.1.2- Output	Real sales	Privatisation database Financial statements The balance sheets Interview database
3.1.3- Operating efficiency	Sale efficiency (SALEFF) Net income efficiency (NIEFF)	
3.2- The nature of SOEs/ NAT-SOE	Industry of the SOE/ IND-SOE	
3.2.1- Strategic SOE/ STR-SOE		
3.2.2- Economic SOE/ ECO-SOE	Profit record/ PRO	
3.2.3- Size of the SOE/ SIZ-SOE	Small SOE/ SMA-SOE Medium SOE/ MED-SOE Large SOE/ LAR-SOE	
3.3- The ownership/ OWN		
3.3.1- Type of the ownership/ TY-OWN	Employee ownership/ EMP-OWN Domestic ownership/ DOM-OWN Foreign ownership/ FOR-OWN	
3.3.2- Percentage of ownership/ PER-OWN	Partnership/ PART	
3.4- Organisational structure/ ORG-STR 3.4.1- Replacing managers/ REP-MAN	Government officials/ GOV-OFF Skills managers/ MAR-MAN	
3.4.2- Organisational chart/ ORG-CHA	High centralisation/ HIG-CEN Less centralisation/ LES-CEN	
3.4.3- Employees reduction/ EMP-RED	Overstaffed/ OVER Right staffed/ RIG	
3.4.4- Incentives policies/ INC-POLI	The salary system/ SAL-SYS Ownership restructuring/ OWN-RES	
Political factors/ POLI-FAC		Beck et al. (2001), Megginson et al. (2004), Bortolotti et al (2003) IMF report
1- The government ideology/ GVE-IDE		
1.1- Economic orientation/ ECO-ORIE		
1.1.1- Right-wing government/ RIGHT	Less state control/ LES-STA	
1.1.2- Left-wing government/ LIFT	More state control/ MOR-STA	

Influential factors	Definition and description	Sources
Additional factors/ ADD-FAC 1- Opposition and debate/ OPPO-DEB 2- Transparency of process/ TRA-PRO 2.1- Doubt/ DOUT 2.2- Management skills/ MAN-SKI	 Politicians/ POLI Employees/ EMP General public/ GEN-PUB Market value of the SOE/ MAR-VAL Bidding procedures/ BID-PRO	Karatas (2001), Kayizzi-Mugerwa (2002), Calabrese (2008), Zahra et al. (2000) Interview database Privatisation data

2.3 Pre- and post-privatisation performance

Studies that have compared performance before and after privatisation can be divided into static studies (2.3.1) and dynamic studies (2.3.2).

2.3.1 Static comparisons

For example, work by Färe, Grosskopf, and Logan (1985) compared 30 public and 123 private electric utilities operating in the United Stated of America (USA) in 1970. They measured overall efficiency in the sense of cost-minimising. Overall efficiency measures were disaggregated into overall technical efficiency and allocative (or price) efficiency. The overall technical efficiency was further disaggregated into purely technical efficiency, congestion, and scale efficiency. Färe, Grosskopf, and Logan (1985) found that publicly and privately owned utilities were not significantly different in terms of the overall allocative and overall technical efficiency measures. They also found that publicly owned utilities have better ratings in terms of purely technical efficiency but are worse than privately owned utilities in terms of congestion and scale efficiency. The major source of inefficiency is due to the lack of allocative (price) efficiency. The authors concluded that on average the publicly owned are overall slightly more efficient than the privately owned electric utilities.

In a comprehensive study, Megginson, Nash, and van Randenborgh (1994) predicted that the switch from public to private ownership would cause firms to decrease the proportion of debt in their capital structures. Either because the state's withdrawal of debt guarantees will increase the firm's cost of borrowing or because the firm will have greatly enhanced access to public equity markets. To test this prediction, the authors compared the average financial and operating performance of 61 firms over a period of three years before and three years after privatisation. The sample included firms from 18 countries, 12 industrialised and 6 developing, and 32 different industries that experienced full or partial privatisation through public share offerings during 1961-1991. To develop a performance time line that reflected operating results from the last three years of public ownership through the first years as a privatised firm, Megginson, Nash, and van Randenborgh (1994) measured profitability, operating efficiency, capital investment expenditure, output, divided payment, leverage and employment level. To test significant median changes in the performance ratio, the authors used the Wilcoxon signed-rank test and the proportion (p) test for the percentage change with the firm performance compared to

predicted ratios. Since Megginson, Nash, and van Randenborgh (1994) is the first study to be published using this approach, later research refers to it as the MNR method.

Megginson, Nash, and van Randenborgh (1994) documented very strong performance improvements following both full and partial privatisation. The results showed that privatisation was associated with higher profitability, more efficiency, large sales, and more capital investments and employment. They also showed that privatisation was associated with a decrease in leverage and higher dividend payments. The results remain unchanged when the authors compared competitive to non-competitive firms. Greater performance improvements were documented for the group of firms that experienced a larger turnover in directors than the group of firms with fewer turnovers in directors after privatisation. They ruled that price increases were a frequent source of profitability increase. The involvement of a private investor in a firm's ownership structure critically affected a firm's performance. Changes in compensation policies may provide incentives for the workers to be more productive. However, as pointed out by the authors, the data for that were insufficient to document these changes.

The study by Megginson, Nash, and van Randenborgh (1994) focused on the SOEs that were fully or partially privatised through public share offerings. The firms, particularly those privatised early in the process, may be among the healthiest SOEs. Also, it is not clear how much of the shares remained state-owned within partially privatised SOEs. If the firms with improved performance included firms that remained majority state-owned, then the conclusion that privatisation improves performance becomes ambiguous. The study also does not identify the impact of other market-opening initiatives such as competition and state regulation that are often launched simultaneously with or immediately after privatisation.

Another study that looked at determinants of post-privatisation performance was carried out for the World Bank by Galal, Jones, Tandon, and Vogelsang (1994). They compared the performance of 12 large firms (mostly airlines and regulated utilities). The study included four countries with three companies in each country. Three countries were developing countries: Chile, Malaysia, and Mexico. One country, the UK, was developed. The authors assessed the economic efficiency and the net welfare effects of privatisation by looking at price and output changes and the impact on consumer and producer surplus.

Galal Jones, Tandon, and Vogelsang (1994) found that net welfare gains occurred in 11 out of 12 firms, on average equalling 26 percent of each firm's pre-divestiture sale. However, the welfare gains from the three UK privatised firms were relatively small compared with the performance improvement of the other SOEs. The magnitude of welfare gains from the three Chilean privatised firms varied from one to another. But it came primarily from investment, improved productivity, product diversification, more appropriate pricing, and better resource allocation. The results can be explained in general by market conditions, institutional factors, and the way in which the companies were privatised. Substantial and positive welfare gains occurred in all cases in Malaysia, but their sources were quite different. Externally, they included change in pricing and investment constraints. Internally, they included changes in management with incentives,

training, and participative decision-making. Mexico's privatisation program was a success story. The most important aspect behind this success was the comprehensive economic reform program which included trade liberalisation, relaxation of rules governing foreign and domestic investment, and deregulation. The study by Galal, Jones, Tandon, and Vogelsang (1994), however, did not model the effects of ownership, competition and regulation on the performance separately. Thus, it leaves open the possibility that economic gains attributed to privatisation may have been the result of other structural reforms.

In contrast to the dramatic post-privatisation efficiency gain documented by Megginson, Nash, and van Randenborgh (1994), Bhaskar and Khan (1995) came to the opposite conclusion. They analysed the effects of privatisation upon employment and output in the Bangladeshi jute industry. The authors exploited a natural experiment involving the privatisation of 31 of 62 jute mills. Output data were collected at the mill level from monthly figures for three major product groups: hessian, sacking, and carpet-backing cloth. These monthly figures were used to calculate annual output from 1981 to 1985. The employment data were similarly collected at the mill-level for the following three categories: manual workers, office employees, and managers. Manual workers were disaggregated into registered stable workers and informal workers.

Bhaskar and Khan (1995) found that privatisation had a negative effect on aggregate output, but this effect was not statistically significant. The analysis of output data at the production group level showed a statistically significant change in output composition between privatised and public sector mills. Privatised mills shifted toward sacking production and away from hessian. The results on employment were more reliable and showed that privatisation had a large negative effect on white-collar employment, office as well as managerial, and a smaller but still significant negative effect on the employment of permanent manual workers. This result suggests that excess employment in the public sector was more substantial at the white-collar level than among manual production workers.

Additional opposite conclusions were reached by Martin and Parker (1997) who compared the performance of 11 British firms that were privatised in the 1980s. The authors measured several performance indicators include profitability (as return on capital), efficiency (value added per employee), and technical efficiency (data envelopment analysis, DEA). The evidence indicated that privatisation had mixed results in the UK. Most of the firms recorded increased productivity growth after privatisation, while the result was disappointing in some cases.

Another study which concentrated on mixed privatisation results was carried out by Andrews and Dowling (1998). They identified strategic changes that differentiated firms that recorded superior post-privatisation performance improvement from firms that recorded inferior improvement or even performance deterioration. The central basis of their argument was the goal conflict between the interests of the principal and the agent. Using agency theory as a theoretical foundation, the authors suggest that superior post-privatisation firm performance will be associated with 1) the government not retaining a significant stock holding, 2) changes in leadership, 3) management stock options being initiated, 4) employee head count being reduced,

and 5) the company being restructured financially. The sample draws from 41 privatised companies from six broad industry classifications and 15 countries. To accommodate comparisons of small sub-samples, non-parametric statistical methods were used.

Andrews and Dowling (1998) stated that controlling for size, industry and country (economic/regulatory effects), the hypotheses are generally supported except for one which related to headcount. They found that 18 of 41 firms retained strong state influence; 16 firms changed their CEOs; 13 firms reduced their employees by at lest 10 percent; 29 firms financially restructured; and 11 of 35 offered the management stock options. For firms in which the state maintained little or no ownership interest, performance improvement was associated with financial restructuring related to reducing agency costs through the increase of debt. For firms in which the state maintained a large interest, performance improvement was an artefact of having reduced interest expenses. Changing the CEOs profoundly influenced the performance of the newly privatised firms. Andrews and Dowling (1998) found a strong association between performance improvement and leadership restructuring (offering management stock options and changing the CEOs) as well as financial restructuring, while operation restructuring was not related to improved performance.

A study complementing that by Megginson, Nash, and van Randenborgh (1994) was conducted by Boubkri and Cosset (1998). It narrowed the sample to include only developing countries and considered the possible impacts of economy-wide factors. The authors applied the MNR method to compare the financial and operating performance of 79 firms over three-years before and three-years after privatisation. The sample included firms from 21 developing countries and 32 industries that were fully, partially, and directly privatised during 1980-1992. Also, it included competitive and non-competitive firms in order to determine whether the effect of privatisation varied according to market structure. To take into account the possibility that differences between the pre- and post-privatisation performance could be due to economy-wide factors, the authors used unadjusted and market-adjusted accounting performance measures. To determine whether the privatisation performance varied with the level of economic development, the sample was separated into upper-middle-income, low-income, and lower-middle-income countries. Boubkri and Cosset (1998) documented significant post-privatisation improvements in profitability, operating efficiency, capital investment, output, and dividends for both unadjusted and market-adjusted measures. They also documented an increase in employment, but this was not significant. By contrast, the financial leverage decreased significantly. These improvements were attributed to ownership only, as the new owners placed greater emphasis on profits and carried out new investments that led to increased output, profitability, employment, and efficiency. The market structure turned out to be unrelated to these improvements. The results, however, were less significant when the data were divided into various sub-samples. Strong performance improvement was noted for firms from upper-middle-income countries, competitive and non-competitive firms, and control and revenue privatisation. Weak performance gain was presented for firms from low-income and lower-middle-income countries.

Along a similar line, the study of D'Souza and Megginson (1999), who also applied the MNR method, compared the financial and operating performance of 85 firms over a period from three-years before to three-years after privatisation. The sample included firms from 28 countries (15 industrialised and 13 non-industrialised) that were privatised through public share offerings during 1990-1996. To determine the sources of performance change, the authors cut their full sample into five sub-samples: 1) non-competitive versus competitive industry firms; 2) control privatisation versus revenue privatisation; 3) industrialised firms versus non-industrialised firms; 4) firms where less than 50 percent of the board of directors was replaced versus firms where at least 50 percent of the board of directors was changed; 5) firms with new CEOs versus firms with continuing CEOs. For the full sample of firms, D'Souza and Megginson (1999) documented large increases in profitability, outputs, operating efficiency, capital expenditure, divided payment, and significant decreases in leverage ratios after privatisation. Employment declined, but this was insignificant. The sub-sample analysis also yielded significant increases in output, operating efficiency, and dividend payout for every sub-sample. Profitability increased significantly for every sub-sample except for competitive industry firms and those from non-industrialised countries. In contrast to the results of Megginson, Nash, and van Randenborgh (1994) and Boubkri and Cosset (1998), employment significantly decreased after privatisation in the five sub-samples. The reason for this difference could be that firms from regulated utilities represented more than one-third of the study of D'Souza and Megginson (1999). In contrast, they represented only 13 percent of studies of Megginson, Nash, and van Randenborgh (1994) and Boubkri and Cosset (1998). Although capital investment generally remained unchanged, it decreased significantly for firms where less than 50 percent of the board of directors was changed.

It can be concluded that the analysis of cross-sectional studies shows that privatisation yielded mixed results. Several studies were decisively in favour of privatisation and suggested that privatisation increased the operating efficiency of divested firms in both developed and developing countries. Others have been more sceptical and suggested that privatisation does not guarantee performance improvement and that efficiency may be related to alternative reform measures, such as competition and regulation, rather than privatisation. It is not clear why and how privatisation led to differences in performance, and little progress has been made in disentangling the separate effects of privatisation, competition and regulation on the performance of privatised firms. The following section reviews studies that were designed to investigate further whether privatisation, regulation, and competition resulted in efficiency improvements.

2.3.2 Dynamic comparisons

To provide a further analysis of the privatisation literature, this section is concerned with studies that dynamically analysed the post-privatisation performance. The aim of these studies was to describe the interaction between privatisation and other market-opening initiatives that are often launched simultaneously with or after privatisation.

To explain the causes and consequences of privatisation in several emerging economies, Ramamurti (2000) proposed a comprehensive, dynamic, multilevel model. He argued that the cause of privatisation, the manner in which it is implemented, and its consequences can all be explained more fully by considering variables at the firm, industry, and country level rather than at only one or two levels. He also argued that privatisation should be viewed as a process in which firm-, industry-, and country-level reforms are implemented in stages, rather than as a one-shot event in which all reforms are implemented fully and simultaneously. He concluded that the firm-level argument needs to be complemented by industry- and country-level arguments to explain the cause of privatisation. In addition, changes in firm governance resulting from privatisation are not the only determinants of post-privatisation performance. Changes in industry structure, regulation, and country-level variables are important as well. However, as indicated by Ramamurti (2000), the model treats the institutional issues superficially, while it does not explain how underdeveloped institutions affect the privatisation strategy. The model also does not explain how firm-level changes interact with industry- and country-level variables.

Cuervo and Villalonga (2000) argued that the observed variance in the post-privatisation performance cannot be explained without a dynamic consideration of the relevant organisational and contextual variables. They developed a dynamic model which complements agency, public choice, and organisational perspectives with contextual variables. The model suggests that privatisations are discrete exogenous changes that trigger a series of endogenous changes in the firm's strategy and organisation which in turn directly affect the performance. These changes are enacted by the firm's management, which also undergoes transformation as result of the privatisation, the firm's goals, incentives, and governance structure. The results showed that strategic and organisational changes increased the post-privatisation performance. Management replacement, by enabling such changes, is a crucial determinant of post-privatisation performance increases. Management replacement, however, is likely to be contingent on the method of privatisation which determines who the new owners are and the degree of political interference that remains after privatisation. Second, another contingency is the possibility that the management is replaced before privatisation as part of the prior restructuring undertaken by the government. In this case the process of organisational change and improvement of the firm's performance might begin before privatisation. The deregulation and liberalisation of the economic environment can affect management replacement.

Bortolotti, D'Souza, Fantini, and Megginson (2002) compared the financial and operating performance of 31 national telecom firms over a period of seven years around the privatisation date. The sample included firms from 25 countries (14 industrialised and 11 non-industrialised) that were fully or partially privatised through public share offerings over the period between 1981 and 1998. The authors applied the MNR method. They incorporated national measures of telecom service level, such as the number of lines in service, and controls for making cross-country comparisons possible. The results showed that privatisation is significantly related to higher profitability, output and efficiency, and with significant declines in leverage. Competition

significantly reduces profitability, employment, and efficiency after privatisation, while the creation of an independent regulatory agency significantly increases the output. Retained government ownership is associated with a significant increase in leverage and a significant decrease in employment, while price regulation significantly increases profitability. Major efficiency gains resulted from better incentives and productivity rather than from the wholesale firing of employees. Profitability increases were caused by a significant reduction in costs rather than price increases. Overall, Bortolott, D'Souza, Fantini, and Megginson (2002) concluded that the financial and operating performance of telecom companies improved significantly after privatisation. However, a significant fraction of the improvement resulted from regulatory changes (alone or in combination with ownership change) rather than from privatisation alone.

Aussenegg and Jelic (2002) also applied the MNR method to compare the financial and operating performance of 154 firms over a period of four years: two-years before to two-years after privatisation. The sample included 43 Polish, 28 Hungarian, and 82 Czech firms that were fully or partially privatised during 1990-1998. To determine whether the effects of privatisation varied according to the method of privatisation, the authors divided the full sample into a case-by-case versus mass privatisation method. They also split their full sample of firms into manufacturing and non-manufacturing firms, to determine whether the post-privatisation performance varied according to the industry. Finally, to analyse whether the firm size influences the speed of restructuring, the pre- and post-privatisation of small and large firms were contrasted.

The results of Aussenegg and Jelic (2002) were compared with those who documented an increase in operating performance after privatisation. Their full sample of firms, in the three countries, shows no increase in profitability and a significant decrease in efficiency and output in the post-privatisation period. One reason for this is that the market-oriented framework, which is necessary for the success of privatisation, has not been readily available in the selected countries. Another reason is that for a majority of the sample, the government continued to own a large percentage of shares for a long time period after privatisation. However, firms in manufacturing industries experienced better changes in profitability than firms in non-manufacturing industries. Firms that were privatised through mass privatisation (Czech SOEs) achieved low profitability in the post-privatisation period compared with their counterparts which were privatised through the case-by-case method. Drops in the output and operating efficiency were much more profound in Polish and Hungarian case-by-case privatisation. Small and large privatised firms did not behave significantly differently with regard to profitability. Therefore, the firm size has no influence on the profitability change for all sub-samples.

To explain how the pre- and post-privatisation was conducted, Loh, Kam, and Jackson (2003) compared the performance of two state corporations, Janatha Estates Development Board (JEDB) and Sri Lanka State Plantations Corporation (SLSPC), prior to 1992 and that of the transformed privatised entities, Regional plantation companies (RPCs), post-1992. They examined the longitudinal changes in values of yield, land-labour ratio, volume of bought crop,

sales price, production cost and annual profits. Loh, Kam, and Jackson (2003) assumed that any distinct changes after 1992 could be attributable to the results of privatisation based on the premise that privatisation could lead to changes in management practices which will impact on the value of the indicators used. The results documented several distinguishable trends. The first is that the state corporations, JEDB and SLSPC, managed to declare a profit only four to five times over period of 17 years, from 1978 to 1994. The RPCs, on the other hand, have been able to operate profitably since 1995, that is three years after privatisation. This suggests that a privatised plantation needs some time to reorganise before it can achieve an improvement. The turnaround in the profit after privatisation may be attributed to a change in management practices. The second notable distinction was the volume of bought leaf and latex, which is a surrogate measure for the levels of installed capacity utilised. This suggests that the private sector is more efficient in the use of capital assets. The third distinguishable trend was the cost of production. While RPCs may have had a higher tea production cost than the two state corporations since 1997, the high cost relates to a higher quality product. On balance, Loh, Kam, and Jackson (2003) demonstrated that the sector's operational efficiency improved after privatisation. However, privatisation itself did not bring about these gains. Rather, it was suspected that changes in management practices and work organisation after privatisation were the key influences. Bear in mind that changes in the environment policies including subsidies, land and labour reform after privatisation may also have affected plantation performance.

Li and Xu (2004) investigated the impact of privatisation and competition on the telecoms sector in 177 countries between 1990 and 2001. They distinguished two types of privatisation: full privatisation, which gave the owners control rights, and partial privatisation, in which the state retained control rights. Li and Xu (2004) examined the impact of these reforms on employment, investments, labour and total productivity, output and service pricing, and network expansion in both fixed-line and mobile market segments. They found robust evidence that both privatisation and competition contributed substantially to improved performance along multiple dimensions. Countries that implemented full privatisation and more aggressive reform policies moved more aggressively to rationalise input and speed up output growth, network expansion, and improvement in both labour and total factor productivity than countries that implemented partial privatisation with less aggressive reform policies. They also found that increased competition was associated with rising employment, investment, output, labour and total factor productivity. Li and Xu (2004) concluded that optimal reform policies required the bundling of competition policy with privatisation.

Unlike most of the previously cited studies, Omran (2004) directly compared the performance of 54 Egyptian privatised firms to those of their SOE counterparts with similar pre-privatisation situations. The sample included firms that experienced full or partial privatisation during 1994-98. The methodology used in this research incorporated many accounting performance measures including profitability, operating efficiency, output, employment, and leverage. For privatised firms, Omran (2004) documented significant increases in profitability and operating efficiency

and significant declines in leverage and employment, while no significant change in output was observed. For the same study period, the SOEs show a similar trend in most performance measures. Most of these findings for privatised firms seem to be consistent with benchmark studies in terms of changes in profitability, operating efficiency and leverage. Some other results tend, however, to contrast with some previous empirical findings in terms of employment and output as he documented significant decreases for the former and insignificant changes for the latter. For the comparison analysis, the result showed that privatised and state firms both experienced significant improvement in most of the performance measures. These findings mean that privatisation improved the performance of privatised firms which, in turn, have had important spill-over effects on the SOEs in terms of competition, demonstration, and anticipation effects. Omran (2004) concluded that in competitive environments, both public and private ownership achieved a similar performance level. This result was partly attributed to the economic reform program that was adopted by the Egyptian government. It was also attributed to the SOE restructuring that was undertaken by the Egyptian government prior to privatisation.

In a contemporary study, Boubkri, Cosset, and Guedhami (2005) applied the MNR method to identify the determinants of post-privatisation performance for 230 privatised firms from 32 developing countries. Their results showed that the macroeconomic reform and environment as well as the corporate governance variables were the key determinants of performance improvements after privatisation. In particular, economic growth was associated with higher profitability and efficiency gains, while trade liberalisation was associated with higher investment and output. Financial liberalisation was associated with higher output changes. Control relinquishment by the government was the key determinant of profitability, efficiency gains, and output increases. Finally, a more developed stock market and better protection and enforcement for the property rights were associated with greater improvements in efficiency.

In comparable study, D'Souza, Megginson, and Robert (2005), who also applied the MNR method, investigated the performance changes for 129 privatised firms from 23 developed countries that were privatised during 1961-1999. They found a significant negative relationship between ownership (government/foreign) and employment. They also found a significant positive relationship between government ownership and capital spending and a significant negative relationship between foreign ownership and capital spending. When the authors compared their results with the conclusions by Boubkri, Cosset, and Guedhami (2005), it appeared that several factors affecting post-privatisation performance differed between developing and developed countries. Micro-level factors, especially government and foreign ownership, were the most influential factors on the post-privatisation performance in developed countries. Institutional factors, especially trade and stock market liberalisation, were more frequently significant determinants of post-privatisation improvements in developing countries.

It can be concluded that the review of time series analysis studies suggests that the majority of the empirical studies indicate that privatively owned firms are more efficient than state-owned firms. However, privatisation alone is insufficient to stimulate performance improvement. This is

especially true in countries where the institutional framework for regulation is considered weak and underdeveloped. The time-series analysis studies uncovered a set of factors and circumstances that interact together to influence the post-privatisation performance. Macro-level and institutional factors, such as market development and liberalisation, are likely to be the key determinants of post-privatisation performance in developing countries. Due to a variety of reasons, particularly the lack of high-quality data, the experience in developing countries is much less well researched (Parker & Kirkpatrick, 2007; Megginson & Sutter, 2006). These findings imply the need to examine the importance of institutional factors and their interactions with endowments and policies.

2.4 Research framework for the case studies

In this section, the research framework is developed based upon the previous discussions. The purpose of this research framework is to summarise the previously gained insights into a model that depicts the privatisation process and the factors that influence this process. It also serves as a guideline for the field study data collection, i.e. it identifies the main variables which will be part of the analysis.

Before developing the research model, it is essential to define the concepts applied in this section. Pidd (1996) defined conceptual as a concept that describes the research model as a diagrammatic representation of the interconnection of the activities. It focuses on the verbs from the root definition and links them logically in quite conventional ways. He also defined the concept of a model as an external and explicit representation of a part of reality as seen by people who wish to use that as a model to understand, change, manage, and control that part of the reality. Mohr (1982) classified the models into variance and process models. A variance model is a set of independent and dependent variables that need to be linked to draw various inferences on the subject. It thus has a stress on nouns rather than verbs, on statistical systems rather than activities, on structure rather than process (Mackenzie, 2000). A process model is a set of dynamic activities that need to get something done that will add value in the business. Therefore, it has a stress on verbs rather than nouns, on activities rather than statistical systems, on process rather than structure (Pidd, 1996). To clarify which model is employed in this research, the following section describes differences between the variance and process models. Mohr (1982) explains the difference between them with respect to their necessary and sufficient conditions as their theoretical foundations (table 2.6).

Table 2.6: Characteristics of variance and process models

	A variance model	A process model
Definition	The cause is necessary and sufficient for the outcome	Causation consists of necessary conditions in sequence; chance and random events play a role
Assumptions	Outcome will invariably occur when necessary and sufficient condition are present	Outcome may not occur (even when conditions are present)
Logical form	If X, then Y; if more X, then more Y	If not X, then not Y; cannot be extended to "more X or Y"
Elements	Variables	Discrete outcomes
Role of time	Static	Longitudinal

Source: Markus and Robey (1988: p. 590).

From the definition, the precursor is a necessary and sufficient condition for the outcome in a variance model, while it is necessary but insufficient for the process model. Variance and process models also differ in terms of assumptions. A variety of inferences on a variance model accounts for only one precursor (Newman & Robey, 1992), while it accounts for a combination of precursors in a process model (Mohr, 1982). Variance and process models also vary in their hypothesised relationships between the precursor and outcome (Markus & Robey, 1988). The variance model rests on the idea of efficient causality as an explanation. A process model depends on rearrangement that is joining or separating two or more specified elements rather than changing the magnitude of the elements (Mohr, 1982).

For the logical form, a variance model can be extended or enlarged to explain or predict what happens once there is a precursor more or less. A similar extension cannot be explained or predicted by the process model (Markus & Robey, 1988). Variance and process models also differ in their elements, conceptualisation of outcome and precursor. Variance models accommodate a set of factors, usually classified as independent and dependent factors (Mackenzie, 2000). Process models accommodate state, step, and activity that are combined to yield some particular outcome (Mohr, 1982). Role of time: variance models deal with snap-shots and have a static function; that is, the functional relation among the independent causes in the precursor is important, but the time ordering among those causes is unimportant. The process model deals with some focal unit, such as conditions, probabilistic processes, and external forces that are capable of changing over time to yield some particular outcome.

This research applies a process model because privatisation is not a single event but a process that occurs in steps (Ramamurti, 2000). Secondly, privatisation is combined with a variety of organisational changes that occur at different settings at the firm, industry, and country level (Boubkri, Cosset, & Guedhami, 2005). These changes are part of the privatisation, and they are often implemented at the same time or immediately after it (Megginson & Sutter, 2006). It may be expected that the success of these policies will be affected by why and how they were implemented (Zhang, Parker, & Kirkpatrick, 2005). Accordingly, privatisation can be better understood by applying a process model that explains activities that were undertaken to privatise the SOEs and aimed at ultimately to improve their performance.

2.4.1 Developing the research model

The basic assumption is that privatisation occurs because of the poor performance of SOEs. Theoretically, the SOEs belong to the society as a whole, and all citizens are considered owners (Hu Song, & Zhang, 2004). Practically, they are financed and controlled by the state (Cuervo & Villalonga, 2000). SOEs in many countries showed poor performance. This led to rising deficits for nations (Dewenter & Malatesta, 2001). To improve the SOEs' performance, and in turn to lessen a nation's fiscal burden, many of the SOEs were switched to the private sector through the process of privatisation (Ilori, Nasser, Okolofo, & Akarakiri, 2003). Another assumption is therefore that privatisation will improve the poor performance of these firms and also improve a nation's financial situation. The poorly performing SOE can therefore be viewed as the input to the process of privatisation (Ramamurti, 2000). The privatised firms can be viewed as the output of the privatisation process. There are two characteristics of this output. One is that the ownership of the firm has changed. Compared to the SOEs, the privatised firms are owned by private investors and controlled by skilled managers who own little or none of the company (Denis & McConnell, 2003). The second characteristic relates to firm performance, which is the ultimate goal of the privatisation (Megginson, Nash, & van Randenborgh, 1994). Theoretically, the privatised firms are supposed to use the available resources more efficiently as a law of nature (Seock, 2005). As was shown in the previous discussion, a number of studies showed the effectiveness of privatisation in improving the firm performance, while other studies came to opposite conclusions (Megginson & Sutter, 2006). It is not sufficient to view the transfer of ownership from public to private sector as an end in itself. The key is that firm performance after privatisation must be measured and compared to the performance of the original SOE in order to find any evidence of performance improvement or decline after privatisation. The model therefore includes a comparison of firm performance during the pre- and post-privatisation periods. Furthermore, privatisation involves several steps and several factors that influence these steps. The conceptual research framework is depicted in figure 2.2. It will be explained in detail in the following sections.

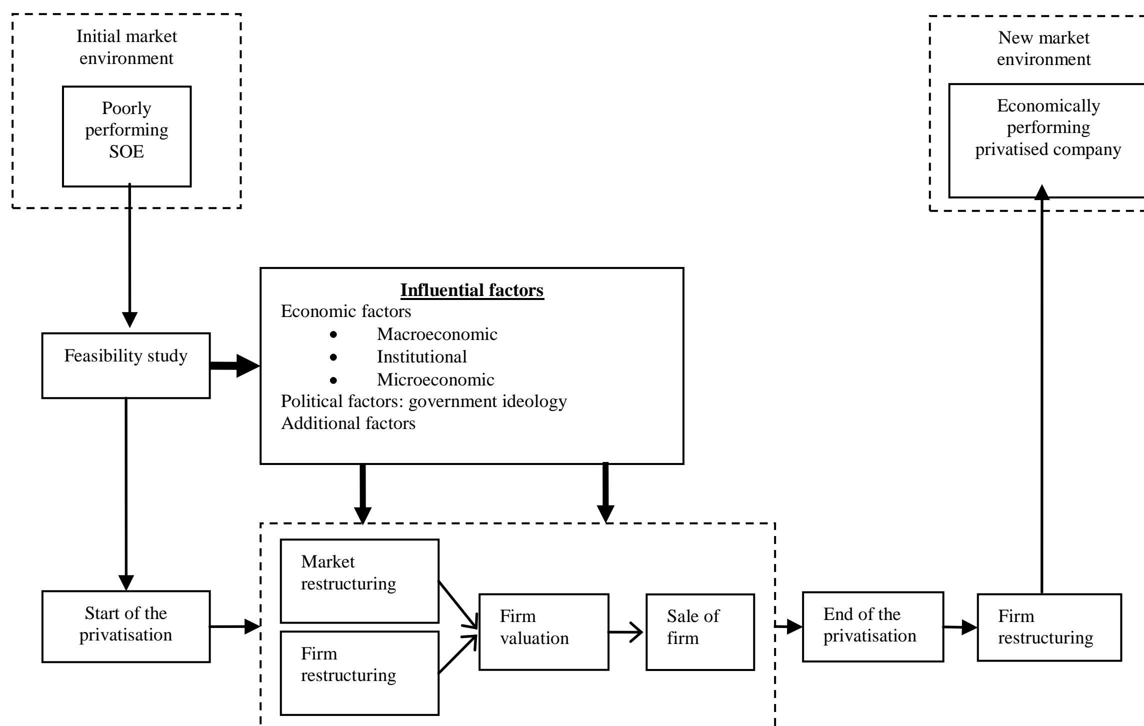


Figure 2.2: The privatisation process/research framework

SOE initial performance

As was demonstrated, many of the SOEs in many countries have not lived up to the expectations of their governments (Dewenter & Malatesta, 2001). They cost rather than make money, and many operate at low efficiency (Nellis & Kikeri, 1989). The critical problems were identified as resulting from the ownership, incompetent managers, excess labour, and weak managerial incentives (Parker, 1995b). To counter these negative effect of the SOEs, many of them were switched to the private sector through the process of privatisation (Ilori, Nasser, Okolofo, & Akarakiri, 2003).

The influential factors: following the announcement of privatisation, there can be observed a strong opposition from politicians who are ideologically opposed to the privatisation. There also can be strong opposition from members of the civil society and general public. The sale of a nation's assets makes many uncomfortable, including the political opposition, members of civil society, and the general public (Calabrese, 2008).

Feasibility study

Following the announcement and before the actual privatisation process starts, governments usually conduct a feasibility study to provide feedback on the possibilities, options, and prerequisites of the sale (Moore, 1986). Such a feasibility study stage ends with a parliamentary decision to create a privatisation agency and to approve the lists of firms in which all of the equity (or part of it) is to be privatised (Ramanadham, 1994).

The influential factors: the choice of which SOEs to privatise depends on specific criteria. Some SOEs are considered strategic firms for national sovereignty and identity, while others are considered economically important (Zahra, Ireland, Cutierrez, & Hitt, 2000). The criteria for selecting the SOEs for privatisation might also include their size and nature. Small, medium, and competitive firms might come first, assuming that they are simple and quick to process, involve little pre-restructuring, and are politically low-risk (Kikeri, Nellis, & Shirley, 1992).
The choice of how to privatise the SOEs also depends on the government ideology and objectives (Megginson & Netter, 2001). Governments may privatise the SOEs through public share offerings either to achieve widespread ownership or to develop the market (Mahoobi, 2003). They may also privatise through employee buyouts either to gain employee support or to reduce the adverse impact on the employee (Gupta, Schiller, & Ma, 1999). Governments may also privatise through mass privatisation either to gain political support based on distributing free vouchers to citizens in order to avoid the sale of national assets to foreigners (Shafik, 1996).

The privatisation process

Once the list of candidates is approved and a regulatory agency is created, the process of privatisation can start (Moore, 1986). This process is characterised by three steps: a preparation stage during which the market and the firm are restructured, a firm valuation stage, and the last stage in which the firm is sold, i.e. ownership of the firm is changed.

The preparation stage

The process of privatisation often begins with restructuring activities to prepare the SOE and its market for privatisation (Moore, 1986).

Market restructuring

The preparation stage includes a market preparation. It consists of revising the existing laws or setting up new laws related to liberalisation, competition, and regulation (Kayizzi-Mugerwa, 2002). These laws can take the form of a general regulation prohibiting uncompetitive behaviour or specific regulations of pricing and other monopolistic aspects (Guislain, 1992).
The influential factors: privatisation is a difficult task, particularly for countries where the institutional infrastructures are underdeveloped, the SOEs dominated all markets, and the corporate governance and law system are weak (Zahra, Ireland, Cutierrez, & Hitt, 2000). For this reason, international donors often support privatisation as one part of an overall government program of exchange rate, fiscal, trade, and price reforms.

Firm restructuring

Aside from market restructuring, the SOEs themselves are also prepared through restructuring activities defined as a change in motivation and operation towards more productive use (Djankov, 1999). These activities can be categorised into organisational and managerial change, cleaning up debts, and making new investments (Binh, 2003).

Influential factors are: the lack of qualified, competent managerial leaders to oversee the firm's transformation can make the process of privatisation more challenging (Zahra, Ireland, Cutierrez, & Hitt, 2000). The lack of budgetary resources to finance the preparation activities may also slow down the pace of the privatisation process (Karatas, 2001). The opposition to the privatisation process continues in the preparation stage to cover issues of labour layoff as an inevitable consequence of the privatisation reduction. This might delay the privatisation, or cause the government to postpone it (Kikeri, Nellis, & Shirley, 1992).

To avoid these problems, special commissions outside the regular privatisation machinery should be established to handle the sale of large firms. Foreign advisers could also be hired as a way of keeping the process both transparent and speedy. It is also better to design measures to ensure that laid-off workers can find new jobs (Kikeri, Nellis, & Shirley, 1992). These measures include an early-retirement program for workers who take advantage of the chance to retire, self-employment program for those who wish to start their own business, job search assistance, and severance payments to those who are displaced by restructuring activities (Omran, 2004). The provision of severance pay for laid-off workers also requires a significant amount of money (Lopez-de-Silanes, 1997). It was also recommended that large, new investments for the SOEs should be left to the private owners once the decision of sale has been made. Getting the private sector to finance and manage such investments, and take the risk, is a major reason for privatisation (Kikeri, Nellis, & Shirley, 1992).

Firm valuation stage

This is an activity that concerns valuing and pricing the firm's assets (Valentiny, Buck, & Wright, 1992). To derive the market value of the firm, several valuation methods are considered as proxies for contestable market value (Davis, 2002). They include the book value; modified value; replacement cost; net present value; and price-to-earnings ratios (Buchanan & Bowman, 1990).

The influential factors: the valuation methods rely heavily on accounting data and may be influenced by the techniques used in the restructuring stage. The firm valuation is a particularly difficult task for countries where information is weak, comparable firms are few, and the market is small (Kikeri, Nellis, & Shirley, 1992). A number of issues including the size of the SOE and the impact of any regulatory control that goes with privatisation have contributed to this difficulty (Karatas, 2001). It is also difficult because the future income streams also need to be valuated (Wright & Thompson, 1994).

The sale of the firm

This stage involves the decision of divestiture which must be made by governments (Megginson & Netter, 2001). It usually includes activities such as advertising the SOEs ready for privatisation, negotiations with potential buyers, and finally, it ends with signing of the sale by the minister (Fundanga & Mwaba, 1997).

Influential factors are: the opposition would continue in the sale stage to cover the issue of

corruption (Kikeri, Nellis, & Shirley, 1992). The lack of transparency in making specific deals may become the key issue of the decision stage (Kayizzi-Mugerwa, 2002).

Firm restructuring after the sale

Following the decision of sale, new privatised firms will be established. These firms might be restructured again after privatisation (Lopez-de-Silanes, 1997). This restructuring involves internal adjustments that influence performance improvement and could be taken in the first few months after the sale (Ramanadham, 1988). The changes include the firm's goals, labour, management, the organisational chart**,** and the managerial incentives (Ozkaya & Askari, 1999). Influential factors are: some of the internal adjustment programs are pursued by the owners and managers. Because the restructuring before privatisation might not fit the new owners' strategy or if the government does not carry out an adequate restructuring (Lopez-de-Silanes, 1997). Other restructurings are forced by changes in the market environment (Djankov, 1999). Following privatisation, the firms are no longer financed and protected by the government (Bortolotti, Fantini, & Siniscaloc, 2004). They are, however, subjected to market forces including liberalisation, competition, institutional system, and regulation (Zahra, Ireland, Cutierrez, & Hitt, 2000). This means that the firms must make ultimately a profit to survive, otherwise they will go bankrupt (Megginson, Nash, & van Randenborgh, 1994).

The performance of the privatised firm

As stated in the introduction chapter, government policies regarding privatisation primarily aim to improve the firm's performance (Megginson, Nash, & van Randenborgh, 1994). The literature review revealed that privatisation is not always successful, and it does not guarantee that the performance will improve. Thus, the firm's performance after privatisation must be measured, and comparisons made between the pre- and post-privatisation periods, in order to assess the impact of privatisation and to determine whether the government's objectives were met.

2.4.2 Operationalisation and measurements

In this section the research model is operationalised, which means that the selected concepts are elaborated in measurements that will be applied in the case studies. It should be realised that privatisation is a very broad process associated with many activities. This research uses the key factors as has been determined based on the literature as has been discussed.

SOE initial performance

Many of the SOEs had generally posted disappointing performances. Although some of them performed very well, many others were particularly inefficient (Guislain, 1997). To counter the negative effect of the SOEs, many of them were switched to the private sector through the process of privatisation (Ilori, Nasser, Okolofo, & Akarakiri, 2003). During the development of the conceptual research framework, an assumption was made that poor performance of the SOE

is the main reason for privatisation.

Measurement: to assess the firm performance before privatisation, the criteria profitability, output and operating efficiency are assessed over three years from 2001 to 2003. The profitability is usually calculated by using return on sales (ROS: net income to sales), return on assets (ROA: net income to total assets), and return on equity (ROE: net income to equity). This research, however, focuses on ROS because it is based on net income and sales that are less sensitive to inflation and accounting conventions than ROA and ROE, which involve flow and stock measures (net income, total assets, common equity) (Boubkri, Cosset, & Guedhami, 2005). It is also especially important given the availability and the quality of accounting data (D'Souza, Megginson, & Nash, 2005). Output is measured by using the real sales (nominal sales adjusted to inflation by using CPI, see appendix A, table A2). The operating efficiency is calculated by using the sale efficiency, which is real sales per employee (SALEFF), and income efficiency, which is net income per employee (NIEFF) (Megginson, Nash, & van Randenborgh, 1994).

Feasibility study

The feasibility study looks at performance, aims and, most prominently, external financing limits of the SOEs (Ramanadham, 1988) to determine which SOEs are more likely to be privatised and how (Nellis & Kikeri, 1989). The choice of the SOEs for privatisation depends on their strategic and economic importance as well as on their nature. The choice of privatisation method also depends on the government's ideology and market development (Zahra, Ireland, Cutierrez, & Hitt, 2000).

Measurement: the privatisation database is analysed. It includes official reports that reveal the initial firm performance evaluated by the government. The database also includes a list of targeted firms that are strategically, economically, and poorly performing firms. The database also reveals the objectives and methods of privatisation that reflect its political economy and, thus, the platform and ideological orientation of the government (Bortolotti, Fantini, & Siniscalco, 2003).

The privatisation process

As was previously identified, the privatisation process is characterised by three steps: a preparation stage during which the market and the firm are restructured, a firm valuation stage, and the last stage in which the ownership of the firm is changed.

The preparation stage

Restructuring of the market and of the firm are the two activities that take place during the preparation stage.

Market restructuring

Restructuring the market is achieved through three mechanisms: liberalising the market, increasing the competition, and issuing new legislation.

Market liberalisation is connected to macroeconomic stabilisation, lowering of tariffs and taxes, deregulation of production, prices, and wages (Khandwalla, 1996). It could broadly bring benefits for the whole economy of the country through access to better technology, input, intermediate goods, and increased competition (Dornbusch, 1992). Market liberalisation allows foreign investors entry to the market that was previously a state monopoly (Ramamurti, 2000). Foreign investors are expected to provide the domestic market with capital, technology, management expertise, and an international link (Welch & Frémond, 1998). In this research, the market liberalisation is part of the restructuring activities conducted by the government prior to the sale of the company will be investigated.

Measurement: the intensity of foreign competition is usually measured with the Trade Openness Index (TOI), deriving from the economic freedom of the world annual report (Gwartney, Lawson, & Easterly 2006). It reflects the degree to which the government's policies restrict the freedom to trade with foreigners. Components of the TOI include the prevalence of tariffs, quotas, exchange rate control, and limitations on the international movement of capital (D'Souza, Megginson, & Robert, 2005). Along with TOI, the Economic Freedom Index (EFI) is commonly used to assess the economic freedom of the country (Gwartney, Lawson, & Easterly, 2006). The major determinants of a nation's EFI are the size of the government, structure of the economy (market vs. central planning), and opportunities for the exercise of personal choice (D'Souza, Megginson, & Robert, 2005). Unfortunately, such figures for Libya were unavailable among the list of 123 countries developed by Gwartney, Lawson, and Easterly (2006). To address this issue, data including tariff rate, exchange rate controls, and limitations on the international capital movement were studied.

Second, competition is seen as a complementary element for the success of the privatisation process because privatisation without the immediate introduction of competition will simply create a private monopoly (Li & Xu, 2004). If the firm does not face direct competition for its products, it is likely to set higher prices and to relate these prices to the intensity of competition and the relative production cost. In a competitive environment, the market rather than the producers themselves controls the price of the product (Smith & Trebilcock, 2001). Increasing competition requires changes in administration, procedure, and controls to liberalise the investment climate and, thus, encourage new private investments to expand further (Behrens, 1996). The introduction of other firms raises the competition and, in turn, the threat of bankruptcy (Hu, Song, & Zhang, 2004). Therefore, competition could affect the privatisation outcome by creating the necessary incentives for privatised firms to make the investments that help to avoid bankruptcy (Boubkri Cosset, & Guedhami, 2005). For the case study, it is expected that market restructuring is associated with increasing competition which is part of the restructuring activities that are conducted by the government before selling the firm.

Measurement: the perceived intensity of competition faced by firms was measured by using a number of competitors to the firm, evaluated by the firm's managers. Since this is a subjective evaluation by managers, it may be subject to errors. The second measure is the potential entry

cost for new competitors to compete with the firms. It consists of a number of questions rating the intensity of competition, e.g. the effect of incentives and threat of bankruptcy (Hu, Song, & Zhang, 2004).

Third, where competition cannot be introduced or takes time to develop, regulations must be instituted prior to privatisation (Gibbon, 1996). The market regulations must control both the prices and the quality of the output to protect consumers from abuse of a monopoly power (Gibbon, 1996). Meanwhile, the market regulations should encourage efficiency and give investors a chance to earn a reasonable rate of return (Welch & Frémond, 1998). This can be done by revising the laws covering areas such as taxation, bankruptcy, and competition (Kayizzi-Mugerwa, 2002). It can also be done by removing any provisions in laws or regulations creating the monopoly position, preventing or restricting the entry of new businesses into market (Guislain, 1992). Investors are willing to pay more for the firms if the regulatory reform takes place prior to privatisation, as the established regulatory system is expected to prevent the future administrative and legal uncertainty of regulation (Wallsten, 2002). The legal protection of investors can influence the quality of privatisation (Bortolotti, D'Souza, Fantini & Megginson, 2002). The expectation, which will be checked in the field, is that new legislation is introduced by the government prior to the sale of the company.

Measurement: to obtain information on market regulation, privatisation databases are studied, namely, acts, legislation, and regulation reports. The economic orientation of the state (socialist or capitalist) was also considered as proxy for the legal environment (Megginson, Nash, Netter, & Poulesn, 2004).

Firm restructuring

Firm restructuring involves five activities: adjusting the organisational chart, replacing top management, dealing with excess employees, cleaning up debt, and making new investments.

The first restructuring activity to prepare the SOE for privatisation is adjusting their organisational chart to be more reasonable and contain smaller units (Binh, 2003). The SOEs are commonly structured by politician and tend to be associated with a strict hierarchy of accountability and centralisation plans (Parker, 1995b). This means top-down decision-making involving long chains of command (Anderson, 1995). To reduce the centralisation plan and bureaucratic rules, the governments transform large firms into viable and smaller units that may be a better match to specialised bidders (Lopez-de-Silanes, 1997). However, the lack of qualified managerial leaders who can oversee the firm's transformation can make the process of privatisation more challenging (Zahra, Ireland, Cutierrez, & Hitt, 2000). Adjustment of the organisational chart is expected to be part of the restructuring activities conducted by the government before the sale of the company.

Measurement: the organisational chart is considered adjusted if the firm has changed its hierarchy. This aspect is measured by looking at related documents and asking several related questions about the organisational chart (Singh, House, & Tucker, 1986).

Second, organisational restructuring might also involve management replacement. The SOEs are run by managers who have a different set of skills than their private counterparts. They were selected for their ability to get along with politicians, not to run the firms efficiently (Barberis, Boycko, Shleifer, & Tsukanova, 1996). To attract private investors and command a higher price, unskilled management might be replaced as part of the firm restructuring (Cuervo & Villalonga, 2000). This involves studying the experience and qualification of each top management team (Lopez-de-Silanes, 1997). Replacing top managers is expected to form part of the restructuring activities conducted by the government before the sale of the company.

Measurement: the management restructuring is considered to have occurred if the firm has replaced its top managers. It is measured by studying the managers' position before and during privatisation (Barberis, Boycko, Shleifer, & Tsukanova, 1996).

Third, restructuring of the SOEs might also involve employee restructuring. The SOEs tend to be overstaffed for social and political reasons as well as pressure from the labour union. For example, creating job opportunities and maximising the probability of re-election (Boycko, Shleifer, & Vishny, 1996). The restructuring of employees is a sensitive issue and generates much heated debate. Excess employees reduce investor interest and invite demands for subsidies to cover their costs. It is, therefore, best for the state to handle the reduction of excess employees prior to privatisation, especially where the employment policies of the state have led to overstaffing (Nellis & Kikeri, 1989). The employee restructuring involves the study of labour scope and size (Lopez-de-Silanes, 1997). However, employee restructuring is likely to incur a large layoff as an inevitable consequence of privatisation, which might delay, or cause the government to postpone, the privatisation (Kikeri, Nellis, & Shirley, 1992). It is expected that the employee base will be reduced as part of the firm restructuring activities conducted by the government before the sale of the company.

Measurement: the employee reduction is considered to have occurred if the firm has reduced the number of its employees. This is measured by counting the number of employees before and during the privatisation process (Barberis, Boycko, Shleifer, & Tsukanova, 1996).

The fourth firm restructuring activity concerns cleaning up their debt. They often face large financial costs or are in a state of bankruptcy (Lopez-de-Silanes, 1997). They would not be attractive targets with their existing debts and obligations. Cleaning up their debt involves cleaning up the balance sheet by removing the existing debt and cross-liabilities, and deciding on the treatment of state-guaranteed obligations. It may also involve renegotiating an ongoing agreement with banks and other creditors for past-due fiscal debt; setting up a financial system; and preparing a new financial statement in accordance with generally accepted accounting principles (Guislain, 1997). The lack of budgetary resources to finance the contingent liabilities of the SOEs may slow down the privatisation process (Karatas, 2001). The government is expected to remove that debt prior to the sale of the company.

Measurement: financial restructuring of the SOEs is related to absorbing debt. This is measured by studying internal documents like the balance sheet and any other documents related to

liabilities. Questions were also asked, such as whether the firm reduced debt prior to privatisation (Andrews & Dowling, 1998).
Lastly, the final organisational restructuring activity is related to making new investments for the modernisation and improvement of technology (Binh, 2003). The government may upgrade the efficiency of the SOEs prior to privatisation to solve their main problems and improve their performance. This can be done through investigating the age of the machinery and equipment as well as the type of technology used. The governments may also change the investment policies of the SOEs to avoid both shutdowns of firms that supply basic goods and unemployment issues. The investment policies are usually altered via rehabilitation plans, agreements on financial restructuring tied to improvements in operations, or the temporary re-opening of firms. The government may also decide to de-invest, cutting the flow of resources and cancelling previously approved investment programs (Lopez-de-Silanes, 1997). However, the new investments in rehabilitation and modernisation before the sale can delay the process. In addition, the government often suffers from a lack of money to finance new investments, and there is a little evidence that it recovers the costs of such investments (Kikeri, Nellis, & Shirley, 1992). It is expected that the government will invest in the modernisation of technology prior to the sale of the company.
Measurement: making new investments is measured by studying internal documents showing the quality of the machinery and the type of technology used as assessed by the technical valuation undertaken by the financial adviser (Lopez-de-Silanes, 1997).

Firm restructuring after the sale

With the change of ownership, privatisation replaces disinterested ministers and bureaucrats by shareholders, who have a strong incentive to monitor the firm regarding efficiency improvement. This is because they own equity ownership and bear the financial consequences of their decisions (Boubkri & Cosset, 1998).
In addition to the change of ownership, the firms are no longer financed and protected by the government following privatisation (Bortolotti, Fantini & Siniscaloc, 2004). They are subjected to market forces including market liberalisation, competition, institutional system and regulation (Zahra, Ireland, Cutierrez & Hit, 2000). This means that firms must make a profit to survive, otherwise they will go bankrupt (Megginson, Nash & van Randenborgh, 1994).
Measurement: the change in ownership is measured by considering the type of ownership. It can be individual, employee, domestic, or foreign ownership. Alternatively, the percentage of shares remaining with the government is measured as a proxy for state ownership, and the percentage of shares allocated to private investors is a proxy for private ownership (Oswald & Jahera, 1991; Kocenda & Svejnar, 2003). With regard to the relation between market liberalisation and firm performance, several related questions are asked.
Restructuring after the sale of the company can take similar forms to the restructuring prior to the sale of the company. First, incompetent managers may be replaced. As noted by Parker (1995b),

a key internal adjustment structure is management replacement. It is possible that managers may be replaced after privatisation as they might not have the required skills to implement the necessary changes (Ramaswamy & Glinow, 2000). Privatisation is expected to change the criteria of selecting managers from political acceptability to market skills (Barberis, Boycko, Shleifer, & Tsukanova, 1996) to employee managers who are capable of facing the new competitive environment and, thus, bringing performance improvements (Ramaswamy & Glinow, 2000). Getting rid of an old team may actually improve the results or reduce the financial squandering often associated with the SOEs (Lopez-de-Silanes, 1997). It is expected that incompetent managers are replaced as part of the restructuring by the new owners after the company's ownership has changed.

The management replacement is likely to be contingent on privatisation methods that determine who the new owners are and degree of political interference that remains after privatisation. If insider privatisation is conducted, managers may be motivated to protect their positions; if outsider privatisation is undertaken instead, they are more likely to be replaced (Cuervo & Villalonga, 2000).

Measurement: the management restructuring is considered to have occurred if the firm has replaced its top managers. It is measured by studying the managers' position before and during privatisation (Barberis, Boycko, Shleifer, & Tsukanova, 1996).

A second internal restructuring that takes place after the sale relates to incentive policies. The SOEs pursue multiple goals, include providing low-price services and goods to low-income groups and job opportunities (Kranton, 1990). The private owners are more likely to focus on profit maximisation to enhance their firm's performance (Cragg & Dyck, 1999). The managers, in both cases, are assumed to depend on their own monetary reward and the level of effort they exert in the job (Kranton, 1990). To align the managers' benefit with that of the owners, a long-term incentive contract can be produced. It encourages the managers to apply the optimal effort on the job and, thus, maximise the owners' benefit. The contract can take a form of separation of ownership and control and a wage agreement (Shleifer & Vishny, 1997).

The ownership of the SOEs is very concentrated in government hands, and managers are treated like bureaucrats and are rarely fired (Yarrow, 1986). Privatisation removes shareholders from the day-to-day operations and gives the managers control of the firm. The control is precisely the authority to determine the aspects of the firm policy (Hansmann, 1996). This is because the managers have better information about the operation costs and their own optimal effort they need to apply on the job, while the owners cannot directly observe these efforts (Kranton, 1990). Thus, the managers' responsibility for the success of a firm will increase, and they will be treated like entrepreneurial businessmen (Parker, 1991).

An incentive contract can also take the form of a wage agreement (Shleifer & Vishny, 1997). Under state ownership, the salary is typically set at the firm or national wages, which are unrelated to the firm's performance. The managers predict that any likely benefit from their investments will not affect their compensation (Cuervo & Villalonga, 2000). Privatisation links

the salary to performance-based measures, which reflect future expectations, and market-based measures, which cannot be manipulated by the managers (Yarrow, 1986). This could provide the managers with better incentives to monitor, motivate, and evaluate their fellow workers. Analogously, an adequate incentive is expected to be paid to the workers for not shirking on the job (Kranton, 1990). It is expected that the new owners and managers of the firm will introduce new incentive policies.

Measurement: the change in a firm's goals is measured by asking questions such as whether a firm has changed its goals and why (Singh, House, & Tucker, 1986). Incentive structures are expected to appear over pre- to post-privatisation either as executive compensation in annual reports or in notes on the balance sheet (Andrews & Dowling, 1998). Questions concern the change that took place after privatisation to improve the firm's performance (Barberis, Boycko, Shleifer, & Tsukanova, 1996).

Third, it is expected that changes will be made to the organisational structure. The managers are expected to reduce the centralisation plan, as part of the internal structural adjustment program to ensure faster decision-making (Parker, 1991).

Lastly, as part of the firm restructuring after privatisation, management often relies largely on reducing the labour force (Ozkaya & Askari, 1999) to eliminate their contribution to the poor performance of the SOEs (Kranton, 1990). It is therefore expected that the new owners and managers will reduce the labour force and renegotiate the working contract.

The performance of the privatised firm

A large number of studies have documented significant performance improvements after privatisation, while a few others arrived at the opposite conclusions (Megginson & Sutter, 2006). Because a majority of studies indicate performance improvements, it is expected that the privatised Libyan companies will also show a better performance than before privatisation.

Measurement: to assess the impact of privatisation on the firm's performance, the return on sales (ROS) and return on assets (ROA) were calculated as profitability ratios over 2005–2007. The real sales, the nominal sales adjusted to inflation by using CPI, were also measured as the output indicators over 2005–2007. The two efficiency proxies, namely (SALEFF) and (NIEFF), were also assessed over 2005–2007. The performance of the firms is compared for the SOE three years before the privatisation and the private company three years after the privatisation.

2.5 Conclusions

In this chapter a literature review was presented to develop a framework to address the research questions. It provided insight into the process of privatisation, the factors that influence privatisation, the sequence of certain activities and issues related to performance before and after privatisation. Overall, it can be concluded from the literature that privatisation is a complex process; it covers a variety of organisational changes taking place in firm, industry, and country

settings. Although the literature on privatisation has tremendously expanded, the causes and consequences of privatisation are still not very well understood (Ramamurti, 2000).
This research framework will serve as a guide for the set-up and execution of the case studies. Several expectations were formulated. and they provide aspects of privatisation which will be specifically checked in the case situations. However, the conceptual framework is also broadly based to allow the possibility of exploration of new insights that might occur in the field.
Based on the empirical evidence presented in previous studies, privatisation literature were categorised into cross-sectional studies, time-series analysis studies and sequencing of privatisation, competition and regulation. The reason for this selection is that there is much work to be done on the impacts the key success factors in particular industries. Several authors have pointed out the need for further research in this field: Ramamurti (2000), Aussenegg and Jelic (2002), Wallsten (2002), and Zhang, Parker and Kirkpatrick (2005).
To investigate in such reforms the research concentrates on developing countries, where the institutional framework for regulation is underdeveloped. It may be expected that the impact of privatisation, competition and regulation in these countries will be affected by why and how the policies are introduced. The research, in particular, focuses on Libya, a country that has a legacy of central economic management and excessive reliance on public sector. This means privatisation for Libya is more than just a change of ownership of individual companies; it involved in the creation of environment which conducive for the development of the private sector.

CHAPTER 3: CASE STUDIES

This chapter describes how the process of privatisation was carried out in four Libyan public-industrial companies: Tin Cans Factory (TCF), Infant Food Processing Factory (IFPF), Al Mnsoura Condiment Factory (ACF) and Furniture Factory, Misuratah (FFM). Before that, the Al Mamura Food Company is introduced, which is related to the first three of the cases.

3.1 The Al Mamura Food Company (AFC)

The first three companies were part of the Al Mamura Food Company (AFC). AFC was one of the largest public joint-venture companies in Libya, specialised in the processing and marketing of canned food. AFC was established in February 1979 by the General People's Committee (GP Committee, Cabinet) with an initial capital of LD 26 million ($21.3 million). The company consisted initially of 17 food factories, but eight of them were privatised in the earlier privatisation experience. In 2001, AFC hired 821 employees for its remaining nine factories, including TCF, IFPF and ACF. In 2004, AFC was shifted to the Domestic Manufacturing Fund (DMF) to be liquated via a bankruptcy procedure.

AFC was managed by a people's committee that was responsible for designing the general policies and preparing the annual budgets for approval. The committee was accountable to the general assembly that consisted of a number of ministries, including the Ministry of Industry, Economy, Labour, and Finance, as well as the central bank of Libya and the supervisory people's committee. They relied on the annual general meeting to discuss their views, define policies, approve strategies, and appoint the people's committee of AFC. The general assembly was administered by the ministry of industry that supervised and controlled AFC. The finance ministry provided all capital under the auspices of the ministry of industry until the end of 2002 when its supervision was transferred to the municipality of Aljfara as part of the decentralisation process that was an initial step towards privatisation.

AFC was chaired by a manager who was appointed by the ministry to supervise AFC and its branches. He was supported by the department of legal and committee's affairs, production affairs, commercial affairs, administration affairs, financial affairs, and auditing bureau. These departments directly supervised the branches of AFC and reported regularly to the chairman. Each of them was divided into three to four main sections, with a total of eleven sections.

The second organisational level at AFC consisted of the nine branches (Al Mansuora Condiment Factory; Al Mamura Food Processing Complex; Condiment Factory, Trhouna; Dates Factory, Hoon; Date Syrup Factory, Khoms; Fruit Factory, Aljable Alakdr; Fruit Factory, Derj; Misuratha Condiment Factory, and Tomato Paste Factory, Sebha). The Al Mnsoura Condiment Factory (ACF branch) is discussed as the third case, see section 3.4. Another branch, Al Mamura Food Processing Complex (AFPC) was created as an organisation to manage three production units including TCF (first case, see section 3.2), IFPF (second case, see section 3.3), and FVF. This

was run by a people's committee consisting of three general directors from the three production units. The committee was chaired by the general director who was hired by AFC to supervise the three production units. He was followed by the planning, training, financial, and administrative offices. These offices were further subdivided into a total of six sections.

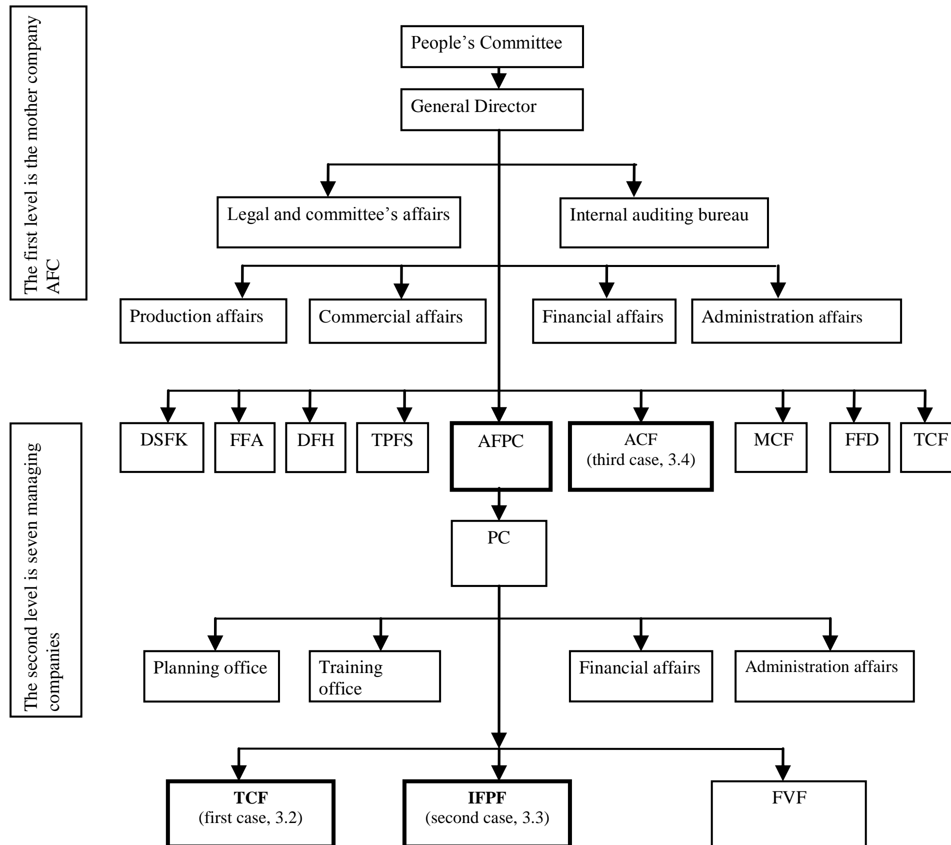


Figure 3.1: Organisation chart of Al Mamura Food Company (AFC) before privatisation

3.2 Tin Cans Factory (TCF)

This section deals with the case study, conducted at the Tin Cans Factory (TCF). The case is described in accordance with the model developed in chapter 2 (figure 2.2 and table 2.5).

3.2.1 TCF background

The Tin Cans Factory (TCF) was established in 1972 with a capital of LD7 million ($5.7 million). At the time of its establishing, TCF hired 220 people who worked in two shifts to satisfy large orders from many public factories. TCF is located 40 km west of Tripoli, in the Al Mamura region, and occupied a total land area of 40,000 m^2.

The factory started manufacturing in early 1975. It specialised in manufacturing food cans, drink cans, and oil cans. Its initial annual production capacity was 226 million pieces a year. TCF

depended entirely on international suppliers for its raw materials such as tin, rubber cement, copper liquid, and nylon. TCF had eight production lines that were made between 1975 and 1985. They were purchased from Germany, USA, Switzerland, France, and Italy. Four lines were for manufacturing cans of 170g, 500g, 1/3 litre, and 1 litre, respectively. The other four lines were for manufacturing caps.

In 1979, TCF was merged with other public factories to become part of Al Mamura Food Company (AFC), with the task of providing the AFC branches with tin cans. During the 1980s and 1990s, TCF had a secure monopolistic position in the domestic market. No other factories existed in Libya that were manufacturing similar products, and these products were also not imported. TCF’s main customers were public canned-products factories that were directed by the government to order from TCF. However, with the privatisation and liberalisation programs of the 1990s, TCF faced strong competition and could no longer dominate the market. Its major competitors became foreign factories that acquired a strong position in the market due to their advanced technology and high-quality products. According to the managers, TCF changed to loss making during the period before privatisation as the state adopted the open market system and abandoned its support of the firm. One option that was considered for TCF's survival was privatisation. In 2003 it was placed on a list of 360 public firms that were marketed for privatisation (see table 1.7).

3.2.2 Situation before privatisation

The situation before privatisation is described by the economic factors, including performance of the SOE (over three years from 2001 to 2003). The aim is to explore the initial conditions that may have influenced the government to privatise TCF. An overview of the figures is presented in table 3.1.

Table 3.1: Profit and loss data from TCF before privatisation

Measurement	1999*	2000	2001	2002	2003
Nominal sales (LD)	760,312	648,450	431,036	172,241	206,484
Sales decline (% compared to 1999)		15	43	77	73
Gross profit (loss) (LD)	(584,870)	(117,324)	(153,893)	(164,269)	(392,869)
Net profit (loss) (LD)	(726,608)	(226,456)	(440,223)	(227,775)	(417,500)
Profitability ratios:					
ROS	(0.955)	(0.349)	(1.021)	(1.322)	(2.021)
ROA	N.A.	N.A.	N.A.	N.A.	N.A.
Output: real sales	760,312	667,816	487,046	215,840	264,384
Real sales decline (% compared to 1999)		12	36	72	65
Efficiency proxies:					
SALEFF (LD/employee)	7,172	6,300	4,594	2,036	2,494
NIEFF (LD/employee)	(6,854)	(2,200)	(4,692)	(2,692)	(5,034)
Number of employees	106	106	106	106	106

*The 1999 figures are taken as a baseline for the period before privatisation.

The performance as SOE

In 1999, the sale figures reached LD 760,312 ($623,206), but in 2000 they dropped by 15 percent to LD 648,450 ($531,516). In 2001, the sales dropped further by 43 percent compared with 1999, to reach LD431,036 ($338,554). In 2002, the sales dropped by 77 percent compared with 1999 to LD 172,241 ($141,181) and in 2003 sales dropped 73 percent compared with 1999 (LD 206,484 or $169,249). In general, figure 3.2 shows that TCF experienced a drop in sales of 52 percent on average compared with 1999 over the five years from 1999 to 2003.

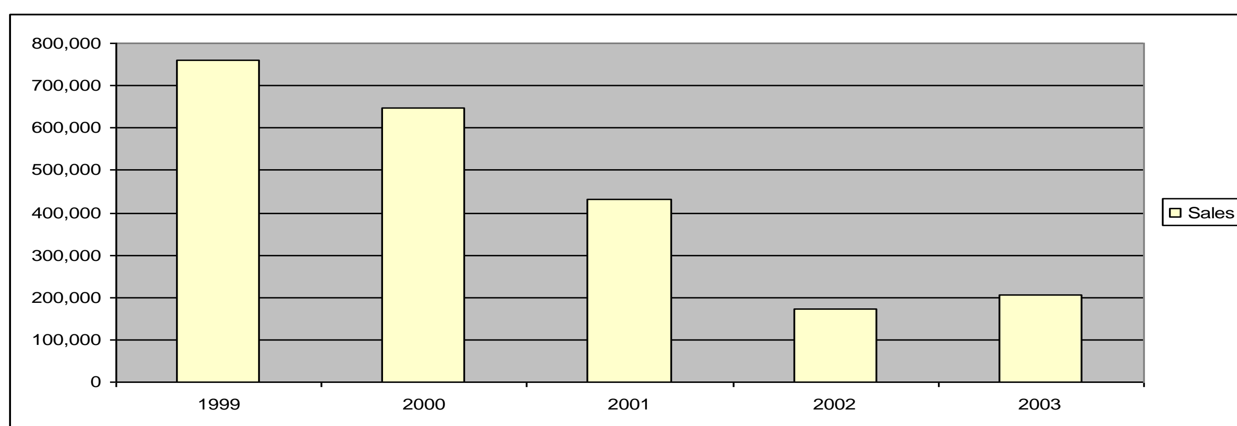


Figure 3.2: Nominal sales at TCF before privatisation

The drop in sales was explained by the fact that TCF suffered from severe demand reduction. Many public factories that used to be directed to place their orders with TCF were being privatised and shift their orders to international companies. Also, factories were not operating regularly because of their poor technical conditions and lack of working capital.

Profitability

Table 3.1 shows that TCF reported net losses ranging from LD 726,608 in 1999 to LD 226,456 in 2000. The last year before privatisation (2003), the loss was LD 417,500. A graphical representation is provided in figure 3.3.

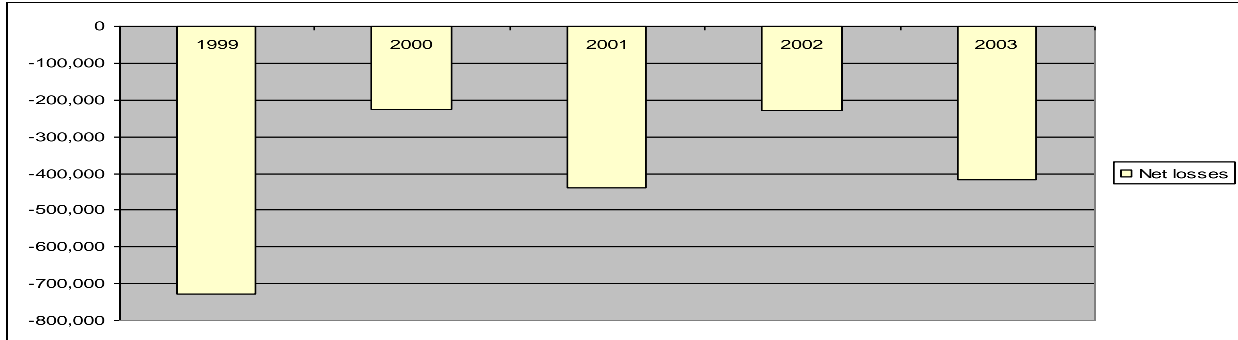


Figure 3.3: Net losses at TCF before privatisation

Figure 3.4 provides an overview of return on sales. Data for return on assets (ROA) was not available because before privatisation, the total assets of TCF, IFPF and FVF were combined and presented as one company, i.e. AFPC.

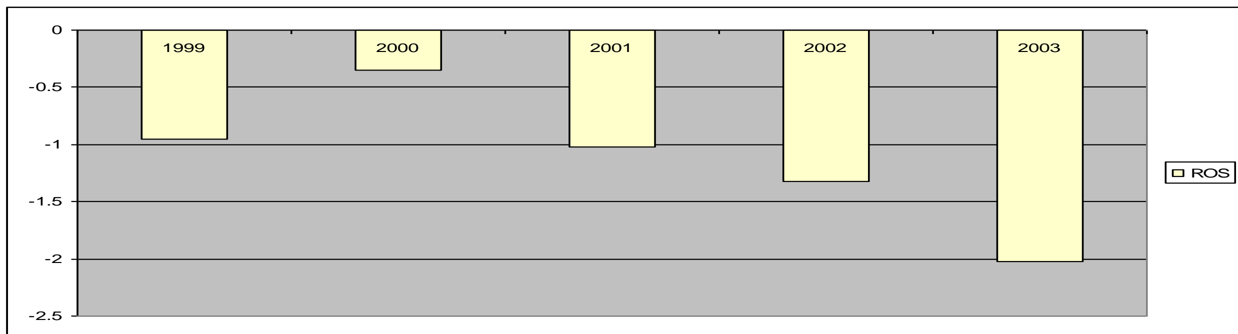


Figure 3.4: Profitability ratio: ROS at TCF before privatisation

These losses were attributed to the drop in sales and the high operating costs due to the use of old machinery, which in turn gave rise to a negative return on sales (ROS) for the five years from 1999 to 2003. TCF was a persistent loss-maker over the five years before privatisation.

Output

Output of the real sales varied from LD 760,312 ($623,206) in 1999 to LD 215,840 ($176,918) in 2002. In the last year before privatisation the real sales were LD 264,384 ($216,708). These results, presented in figure 3.5, show that TCF in a drop in real sales of 46 percent on average compared with 1999 over the five successive years from 1999 to 2003.(1999 base year)

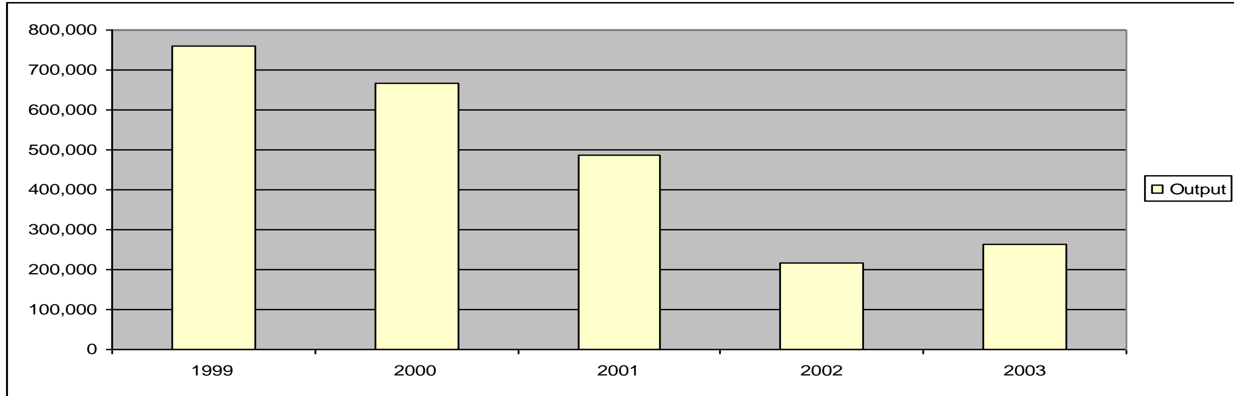


Figure 3.5: Output (real sales) at TCF before privatisation

Operating efficiency

The measures of the efficiency proxies indicate that the sales efficiency (SALEFF) decreased from LD 7,172 ($5,878) in 1999 to LD 2,036 ($1,668) in 2002. SALEFF improved in 2003 to LD 2,494 ($2,044) but was still much lower than in 1999. Similar to the profitability ratios, the gross losses resulted in negative net income efficiency (NIEFF). NIEFF went from LD 6,854 ($5,618) in 1999 to LD 2,200 ($1,803) in 2000 and then worsened to LD 5,034 ($4,126) in 2003. Figure 3.6 shows that TCF experienced a drop in the SALEFF of 46 percent on average compared with 1999 and had a negative NIEFF over the five years from 1999 to 2003.

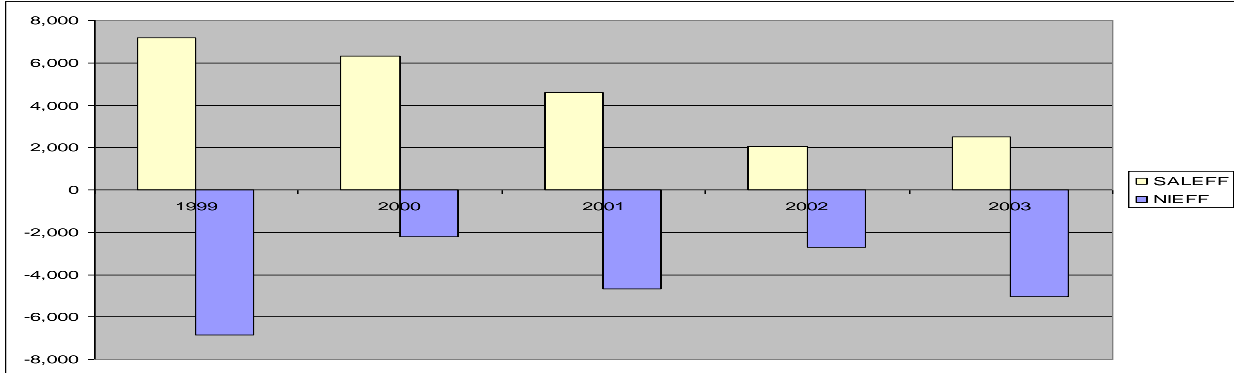


Figure 3.6: Efficiency proxies: SALEFF & NIEFF at TCF before privatisation

Organisational structure

The organisation

TCF had a structure that was approved by the Ministry of Industry in August 1993. The structure is depicted in figure 3.7 and represents the third level of AFC (see figure 3.1).

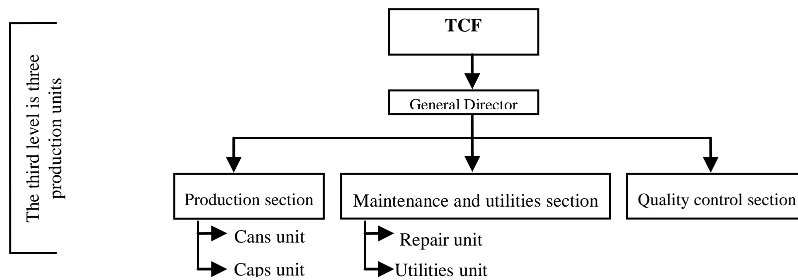


Figure 3.7: TCF organisational structure

The general director in charge of the three sections (production, maintenance and utilities, and quality control). The production section was divided into a cans unit and a caps unit. Each unit had four supervisors who were directly accountable to their own unit head. The maintenance and utilities section was also divided into a repair unit and utilities unit. The general director was accountable to AFPC, which in turn was accountable to AFC, which had the planning and financing authority. AFC was administered by the Ministry of Industry which helped to obtain state subsidies. Managers held the opinion that prior to privatisation this structure severely limited their flexibility in dealing with daily emerging contingencies, because virtually all decision-making activities were administered by AFPC and AFC. The production manager added that if any problem emerged, they were required to report to AFPC, which often took several days to respond instead of a desired few hours.

The management

The management of TCF consisted of the production manager, with an intermediate diploma of manufacturing studies, who had been working in the factory since 1974. In collaboration with the section staff, he monitored the production process, determine the production requirements, and was responsible for addressing troubles in the production lines. The second member of the management team was an engineer, responsible for the maintenance and utilities section. He had been working with TCF since 1981. The maintenance manager has an intermediate diploma of manufacturing studies and, in addition, had undergone several external training courses in Germany and the UK. He worked closely with his staff to regularly check-out production lines and equipment. The third member of the management team was a manager in charge of the quality control section. This was also an engineer with a vocational education. He examined samples of raw materials and finished products to ensure their quality. These managers were appointed by AFPC to submit monthly reports, which summarised day-to-day activities, to the general director who, in turn, informed AFPC by means of quarterly reports. The general director, with a background in engineering, had been working at TCF for 26 years. He was appointed to supervise day-to-day activities in the factory. He was required to execute all decisions of AFPC, which also dealt with the input and output decisions of TCF.

The employees

In 2001, TCF had 106 employees who had been appointed on the basis of a lifetime contract. Employment grades ranged from third to eleventh grade [2] . About 70 percent of the workers had an intermediate diploma and vocational education, while the remaining 30 percent had secondary and preliminary education. About 75 percent of the employees had been working at the factory since its commissioning.

According to the managers' estimation, TCF had an excess of 50 employees. This situation was explained as follows. TCF traditionally had a large demand from public factories that were officially directed by the state. To meet orders TCF originally recruited those 220 employees who worked in two shifts a day. But with the privatisation and liberalisation programs of the 1990s, the factory experienced a gradual reduction in demand. Many former clients were already privatised and had shifted to ordering from international companies. As a response to this demand reduction, TCF had begun using a standard working day (abolishing working in shifts). This results in an excess of employees.

The incentive policies

The employees were paid according to law no. 15/1981 which determines the salary level for public sector employees. However, they considered their salary very low, compared with the (rising) costs of living. No substantive adjustments had been made to the salary since 1981. The average basic monthly salary at TCF was LD 216 ($177) in 2001. Employees were also paid irregularly. They were entitled to receive a monthly salary, but in the period before privatisation the employees were only paid once every two to three months. In addition, the scope and the scale of the authority within the factory were limited. In this regard, a production manager basic task was to deliver the planned target, with no incentives possible.

3.2.3 The feasibility study

In June 2002, the production affairs office of the government hired an expert team to conduct a feasibility study of AFC. The study aimed to determine if it would be preferable for AFC, including its nine factories, to continue operating under an umbrella of the public sector or whether it should be privatised. The study investigated the administrative, financial, commercial, and technical situation of AFC. This study did not show the result of TCF separately. Instead, this was compiled along with a result from its eight sister factories and presented as one single company. For that reason only limited data about TCF could be obtained.

The study concluded that AFC had a stable management and was managed by qualified people.

[2] According to Law 15/1981, the employment system in industry in Libya has a range between 1st to 13th grades. Uneducated people as well as those who have up to secondary education usually are employed between 1st and 6th grade. These grades imply basic salaries between LD 96 and LD 120/month. People who have university degree and above are usually employed from 7th to 13th grade. Their basic salaries range between LD 170 to LD 500. Meanwhile, experience can raise the grade, as after each 4 years of working experience, the employees can move from one grade to the next. However, this system is not in place anymore as the government cancelled the system.

However, AFC was a persistent loss-making company with LD 1.4 million ($1.1 million) of net losses in 1999. On March 2002, AFC had a debt of LD 4.4 million ($3.6 million) and account receivables of LD 7 million ($5.7 million). AFC experienced a rapid growth of inventory of finished products which reached LD 1 million ($819,000) on March 2002. On March 2002, most of AFC's factories were shut down mainly due to the fact that all of them were equipped with old machinery, which made it impossible to compete.

It was recommended that AFC should be liquidated through a bankruptcy procedure. Four of AFC's factories (FFA, DSFK, AFPC and ACF) were assessed to be in serious trouble, and hence they should be restructured by establishing four new companies[3]. The issue of excess employees would be settled by giving priority to employees to participate in buying shares of the companies that were being privatised. Compensation would be given to employees who departed voluntarily. If a decision was made for AFC to continue as a public company, then it was assessed several measures had to be taken to ensure its survival. This included, settling the previous debts. AFC should also get support with marketing its products and collecting its receivable account. An investment of about LD 30 million ($24 million) would be needed to enable AFC to carry out a major technology-development program.

Following this feasibility study, AFC was transferred in 2003 to the DMF in order to liquidate the company. At that time TCF was placed on the list of 360 public companies that were marked for privatisation.

3.2.4 The process of privatisation

This section deals with the process of privatisation. It concentrates on firm-level activities that were conducted to privatise TCF. It also pays attention to the institutional activities, such as market regulations, that surrounded the privatisation. The focus is on the implementation of the privatisation process of TCF.

Initial firm valuation

According to resolution no. 100/2004, TCF was initially valued at a fixed price of LD 1,026,302 ($841,231). This amount reflected the value of fixed assets. To execute the resolution, GBOT created a supervisory committee to monitor the process of privatisation within TCF. It consisted of a representative from each of AFC, TCF, the labour union, the municipality, and GBOT. An establishment committee was also created to assist GBOT to obtain the final market value of TCF. This was chaired by the maintenance manager with three other members. GBOT also hired a legal editor for the formal declaration of the newly privatised firm.

Preparation: market restructuring

Following the results of the feasibility study, the government decreed a number of new

[3] Three other factories (MCF, DFH and CFT) should be directly sold off due to incomplete maintenance activities, and the remaining two factories (TPFS and FFD) should be liquidated due to obsolete technologies.

legislations in early 2003. These concerned economic reform in general and the privatisation program in particular. The story of market preparation was already discussed in section 1.3.4. The market was prepared for privatisation by revising the existing law that covered economic activities in the country. The market was also prepared by reducing the interest rate to help investors obtain the additional capital they needed more easily. In conjunction with this, there was an exemption of all newly privatised firms from paying tax and custom duties for a period of five years.

In conjunction with this, the Libyan government allocated significant resources, including the creation of the General Board of Ownership Transfer of Public Companies and Economical Units (GBOT), Libyan Stock Market Exchange (LSME), Domestic Manufacturing Fund (DMF). In addition, the government relied on the outside consultants (WB) to prepare the process.

Initial agreement and establishment of a new company

The establishment committee invited the TCF employees to a meeting at which they outlined the initial market value of TCF along with the description of the details of the privatisation according to resolution no. 100. The employees were informed that in case they were interested in buying a share in TCF, several options would be available to them. The government wanted to ensure their participation in the transaction as buyers and, thus, increase the chance of avoiding unemployment issues. Therefore, the employees had the first option of buying the factory. They also had the right to withdraw and use their accumulated 1.5 percent of their salary contribution as a payment for their shares. A time period ranging between five and eight years was offered to the employees to pay for the ownership of the factory. The employees were also free to decide whether to include or exclude the obsolete inventory from the final market value of TCF. A mixture of options was offered for employees who were not interested in TCF ownership. These options included a self-employment program, transferral to other state agencies, and early retirement benefits. As a result, 12 employees voluntarily left, based on the hope of securing a regular salary from another part of the government. The remaining 94 employees decided to participate in buying TCF. They were required to cooperate with the legal editor to create a new company that was going to take over TCF. The employees established a new company, named *Tashrukya* of TCF, with cash of LD 47, 000 ($38,524).

Preparation: firm restructuring – organisational structure

Organisational chart

The new company obtained a holding structure comprised of the general assembly which reflected its ownership and independence (figure 3.8). The general assembly consisted of the president, the vice-president and all of the shareholders as owners of the factory. who had the right to decide about the affairs of TCF. The structure also included a board of directors consisting of the general director and two other managers. This constitution of the board reflected the ownership structure.

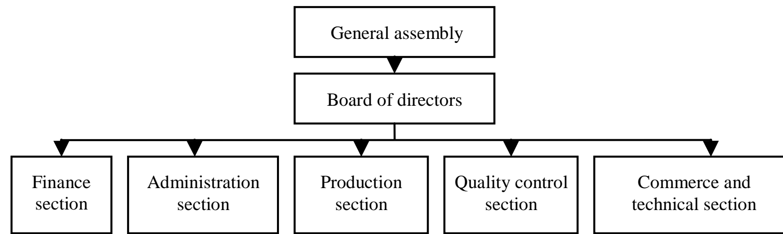


Figure 3.8: A new organisational chart of TCF created during the privatisation process

As shown in figure 3.8, new finance, administration, and commercial sections were established to reflect the independence of the company in dealing with financial, administration, and marketing affairs. The former maintenance and utilities section merged with a commercial and technical section, in the expectation that this would enable them to encompass the functions of these sections more efficiently. The former production section was restructured by eliminating its units, but the quality control section remained unchanged. One person was put in charge of each of these sections to perform multiple tasks. These changes were aimed to fast decision-making with low cost.

Management replacement

The board of directors was elected by the general assembly to run the factory on its behalf for a period of four years. They were elected based on their experience and their public relation skills so that they could deal with bureaucratic issues. The board of directors was accountable to the general assembly that concerned itself mainly with shareholders' issues such as the allocation of funds and the size of the dividend. The board of directors is chaired by the former general director, who is also president of the general assembly. He officially represents the factory outside the company.

The executive managers were appointed by the board of directors for a period of four years; experience and qualification were considered key issues to guide the appointment process. They were required to provide the board with a detailed reporting on matters falling within their domain of competence. The first deputy of the board, who held a degree in accounting, was also in charge of the finance section. He was transferred from AFPC, where he had worked at the finance department since 1994. This first deputy/finance manager was responsible for financial management and the internal economy of TCF. The administration section was headed by a manager with an intermediate diploma of economic studies. He was also transferred from AFPC where he had worked in the administration department since 1979. In the past, he had held the position of general director of TCF and chairman of AFPC. The administration manager was responsible for the managerial information system and human resource management. A second deputy was a former production manager. He was once again in charge of the production section. He prepared a working plan and determined all the practical tasks and materials resources that were required for the production process. The quality control section was headed by the former

quality control manager. His duty was to examine samples of both raw materials being received and finished products to be delivered in order to ensure their quality. Lastly, the commerce and technical section was headed by a manager who held a bachelor of engineering degree and had been working at the factory since 1974. He was responsible for marketing, assets maintenance, production service, and sale. Table 3.2 provides an overview.

Table 3.2: Management position changes at TCF

Position	Existing or new position	Change
General manager	Existing	New person (from AFPC)
Finance manager (and first deputy)	New	New person (from AFPC)
Administration manager (also general manager)	New	See under general manager
Production manager (and second deputy)	Existing	Same person
Quality control manager	Existing	Same person
Commercial manager	New	New person but within TCF
Maintenance and utilities	Position removed	

Preparation: continued firm restructuring – financial

To move forward with the new company, the initial article of incorporation no. 1/72 was signed in August 2004 between the chairman of GBOT and the general director. It reveals that TCF was purchased by its employees for an initial price of LD 1,026,302 ($841,231). This was the same as the initial assessed value of the company and excluded the value of the land and current assets such as raw materials, spare parts, finished products, cash and liabilities. The initial decision for the sale to the employees was followed by stocktaking activities. These were carried out by the establishment committee to assist GBOT to establish the final market value of TCF.

Dealing with debts

To identify the financial obligations of TCF, the liabilities accounts were investigated. It was determined that in August 2004 TCF had total of financial debt of LD 282,617 ($231,653) (table 3.3). These debts were transferred to the DMF which settled them through negotiation with third parties.

Table 3.3: Debt of TCF as of 31/08/2004

	LD	US$
Social security fund	116,580	95,557
Taxes	102,373	83,912
Joint-liability fund	10,460	8,573
National investment company	14,742	12,083
Food products union	2,421	1,984
Public treasury	4,041	3,312
Electricity company	32,000	26,229
Total	**282,617**	**231,653**

Source: Report of stocktaking activities at TCF.

The committee also investigated the unpaid salary and compensation due to the employees in order to free TCF from any due benefits. It was established that in August 2004 the total outstanding payments to the employees was LD 172,349 ($141,269) (table 3.4). These payments were also transferred to the DMF to be paid to the employees. The employees acknowledge that they received their total outstanding payments.

Table 3.4: The outstanding payments for employees at TCF on 31/08/2004

	LD	US$
Unpaid salaries	90,852	74,468
Compensations	38,145	31,266
Other payment	43,352	35,534
Total	**172,349**	**141,269**

Source: Report of stocktaking activities at TCF.

Asset auditing

The committee conducted a stocktaking exercise on the assets of TCF. The production lines and range of equipment were investigated by recording information such as type of machinery and the number of production lines. The buildings and utilities were also measured by determining their floor space and size from documents. The furniture and transportation were also investigated by making reports about each of them. This investigation was only superficially conducted and did not include inspections of the detailed situation on the shop floor. No activities were undertaken to provide for new investments for modernisation. The reason for this was that the government wanted to avoid any delay in the privatisation process.

Sale of the firm/change of ownership

To move forward with the *Tashrukya* of TCF, delivery and receipt reports between the establishment committee and the board of directors were signed in October 2004. In December 2006 the final article of incorporation no. 24/74 was signed. The final market value of TCF was established as LD 1,933,582 ($1,584,903), excluding the land value. This market value was LD 907,000 higher than the initially established value of the company (an increase of 88 percent) as a result of the valuation of current assets and liabilities. The debt was a total of LD 454,966. The article also reveals that the total price was to be paid off in instalments over five years, from October 2007 to October 2011. Each instalment was to be LD 386,716 ($316,980). The employees argued that the established market value measured for TCF was too high and did not reflect the real value of the assets. They stressed that TCF was located in a building that was more than thirty years old and equipped with machinery that also had been used for more than thirty years. Also, two of the production lines had been out of order for almost 15 years.

The employees were also very critical about the exclusion of the land from the transformation. This exclusion formed the main barrier to obtaining a business loan. This aspect will be discussed in more detail later. From a government perspective, the reason that the land was not included was because it was feared that if this was the new owners might close the business. In

that case they could sell off the land to other investors who would alter the field of business on the property. Such a move would be in conflict with the avowed strategic policies of the privatisation.

3.2.5 Restructuring after privatisation

This section looks at the three years from 2005 to 2007. The goal is to explore the changes made in the structure and performance of TCF in relation to privatisation.

The new industry environment

The new owners held the opinion that once the factory was free from state control, it could perform better and make a profit. Within a few months, the managers realised that they could experience difficulty in securing demand. They explained the situation in this way: before privatisation the production targets were fixed and were directly sold to other state companies. After privatisation, the production was based on market demand. Meanwhile, international competition had significantly increased and it had introduced sweeping new market strategies and technologies. These new strategies consisted of extending credit to customers. New technologies consisted of making paper cans instead of tin cans. TCF was equipped with machinery, which in effect were obsolete. The managers concluded that the outdated machinery was inefficient and made their factory’s products uncompetitive.

The managers responded to this situation by resetting their priorities; the first and main short-term goal was to find and exploit new markets. Managers, and even ordinary workers, who had friends or relatives working in canned-products factories contacted these friends and relatives. The purpose was to try to create new demand via these personal contacts. This led to a number of orders from the Al hazam al akhdar food processing factory, from the Wadykam juice factory, and from the Al kawas food processing factory. The managers also wrote several reports to the government explaining their problems and asking it to direct canned products factories to order from TCF. They did not receive a government response to these reports and their requests. The second short-term goal was to search for trade partners. This was initiated because of the belief that if they could cooperate, the partner could provide cash. Such cash was required to finance the day-to-day operations as well as for financing new technology. Negotiations were initiated with several foreign investors. No agreement could be reached mainly because the foreign investors felt that the can market in Libya was too small. After these negotiations failed did the managers begin to fully grasp that the GBOT had not assessed the factory in a reliable way. It had presented its financial situation with respect to profits in the future. The managers tried to cope with the lack of cash by negotiating the possibility to receive advance payments when obtaining orders. Also the managers asked the government about alternative options for obtaining loans. They applied for several loans with banks but these proposals were rejected. The managers claimed that the banks' refusal was mainly due to the issue of the land property. Normally, land was required as a collateral for bank loans.

Firm restructuring

Management replacement

In August 2006, the former general director died, and the manager who was responsible for the administration section replaced him. Since then the position of the administration manager has remained unoccupied.

Employee reduction

After privatisation the working contracts were renegotiated, changing from a lifetime to an annual contract. During 2005, nine workers left the factory to join other government agencies. They departed not because of the change of the working contract but because they were worried about the performance of the factory as it failed to improve after privatisation. A year later, another five employees also left as they had not received their salaries since March 2006. The general director explained this situation by stressing TCF was suffering cash flow problems. The procedure had been to divert the funds earmarked for salaries to the critical use to buy raw materials that the factory needed to meet expected orders in the future. To continue operating, the remaining employees participated in collecting money to pay for the ownership stake of the 14 employees who had left the company. Even with 80 employees TCF remained overstaffed from a management perspective. It was estimated that the optimal employment level would be a maximum of 50 employees. However, the general director said that any further cut of the employees was difficult to realise since they owned the factory.

Incentives policies

To improve the attitude of employees, they were given more independence in everyday decision-making to handle all activities within their respective areas of competence. They now had full authority to manage their sections' affairs with regards to production, organisation, quality and costs control. But other power was given to the board of directors who were responsible for strategic decisions and representing the factory at outside meetings. The general assembly concerned itself with shareholders' issues such as the allocation of funds and the size of the dividend. The managers claimed that many of the functions, which were previously centrally handled by AFPC and AFC, were now better and more efficiently handled by both the board of directors and the executive managers. Net income was divided into three parts to ensure the continuity of the operating process as well as to encourage the employees to generate a profit. One-third was classified as reserved for the salary that was distributed among the employees. The second part was deposited in a collective account that could not be appropriated by the employees. The final part was retained and invested in the major capital account to be devoted to rejuvenating TCF. This resulted in an average monthly salary that of about LD 300 ($245) in 2006 compared with LD 216 ($177) in 2001.

3.2.6 Performance of privatised firm

To obtain insight into the performance of TCF, the profitability, the output, and the operating efficiency were assessed. Table 3.5 provides an overview.

Table 3.5: Profit and loss data from TCF after privatisation

Measurement	2004*	2005	2006	2007
Nominal sales (LD)	95,277	538,426	191,778	0
Sales trend (% change compared to 2004)		465	101	(100)
Gross profit (loss) (LD)	(4,098)	(16,952)	15,971	N.A.
Net profit (loss) (LD)	(120,119)	(135,448)	(102,525)	N.A.
Profitability ratios:				
ROS	(1.260)	(0.251)	(0.534)	N.A.
ROA	N.A.	N.A.	N.A.	N.A.
Output: real sales	126,027	691,175	229,674	0
Real sales trend (% change compared to 2004)		448	82	(100)
Efficiency proxies:				
SALEFF (LD/employee)	1,340	8,131	2,870	N.A.
NIEFF (LD/employee)	(1,690)	(2,045)	(1,534)	N.A.
Number of employees	94	85	80	80

*The 2004 figures are taken as a baseline for the period after privatisation.

Profitability

The profit and loss account shows that TCF reported net losses of LD 135,448 ($111,022) in 2005 and LD 102,525 ($84,036) in 2006. These losses give rise to negative ROS for 2005 and 2006. Figure 3.9 provides an overview of the losses, while figure 3.10 provides an overview of the ROS.

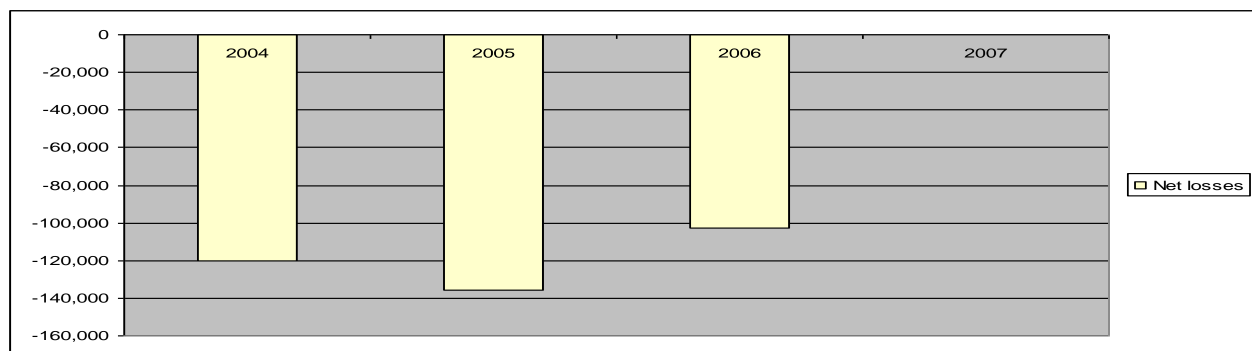


Figure 3.9: Net losses at TCF after privatisation

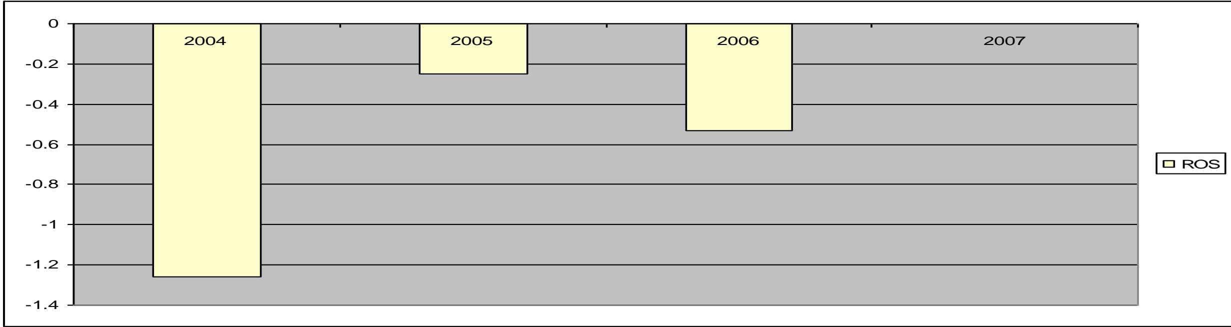


Figure 3.10: Profitability ratio: ROS at TCF after privatisation

The general director attributed these losses to the high operating costs resulting from labour costs, as evidenced by salaries and wages, and the use of old machinery. He stated that, "*if we managed to reduce at least 30% of the labour force, we could save significant operating expenses, much of which is in the form of salaries, and therefore net profits would have increased. But of course our ability to fire workers is very limited as the factory was sold to the entire workforce*".

Since March 2006, TCF has not received any new customer orders, and therefore no production took place in 2007 and later. This lack of demand was a result of the growing competition. Lack of working capital to finance operations also formed a barrier to production. The managers explained that foreign competitors had drawn away their business by offering favourable package deals that allowed customers to postpone the payments. In sharp contrast, TCF had to negotiate the possibility of receiving advance payments when obtaining an order due to the lack of working capital. As a result, domestic customers, which had their own financial difficulties, could see the advantages of delayed versus advance payments and hence shifted their orders to international competitors. This in turn led TCF to gradually lose its markets. The results show that TCF was a loss maker for the three years 2005 through 2007. Figure 3.11 provides an overview of all of the years, which allows a comparison of before and after the privatisation.

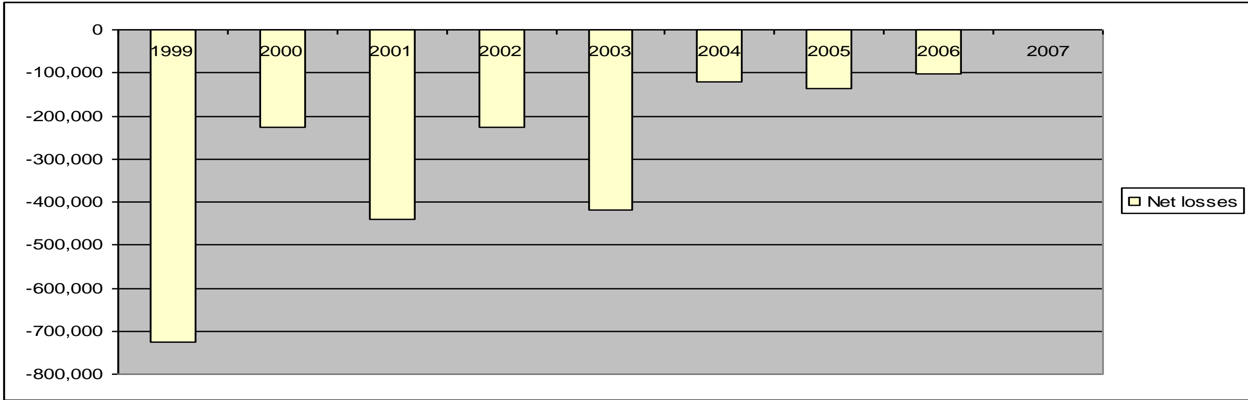


Figure 3.11: Net losses at TCF before and after privatisation

It illustrates that TCF generated net losses before and after privatisation. However, the losses of

after privatisation, are smaller than before privatisation.

Figure 3.12 provides an overview of ROS across all the years of before and after privatisation. It shows that ROS improved after privatisation but still remained negative.

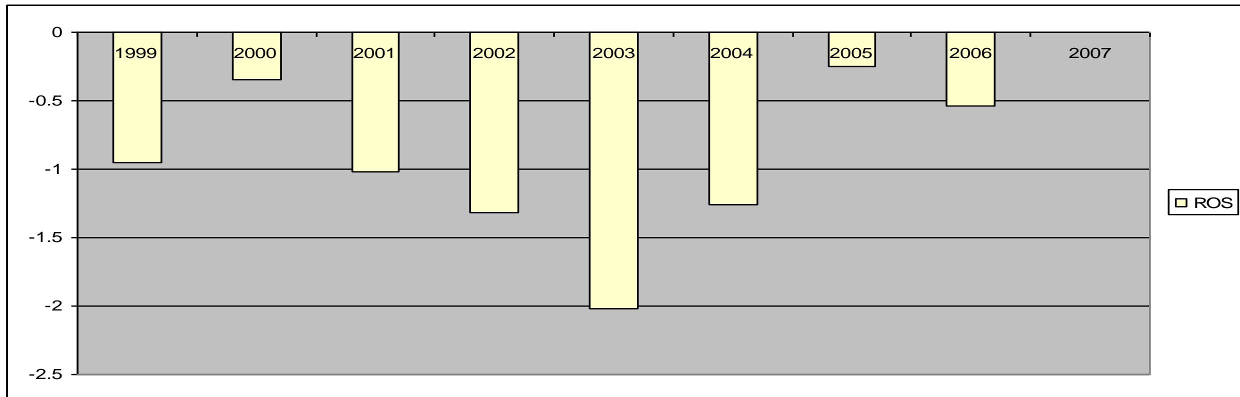


Figure 3.12: Profitability ratio: ROS at TCF before and after privatisation

Output

In 2005, the sales increased by 465 percent from LD 95,277 ($78,095) in 2004 to LD 538,426 ($441,332). In 2006, they increased by 101 percent, compared with 2004, to LD 191,778 ($157,195). This increase was obtained as the factory was able to secure a limited amount of orders from three traditional clients. TCF experienced an increase in sales of 265 percent on average over 2005 and 2006 compared with 2004. However the sales in 2006 were less than in 2005. In 2007 as the sales were nil, TCF stopped manufacturing.

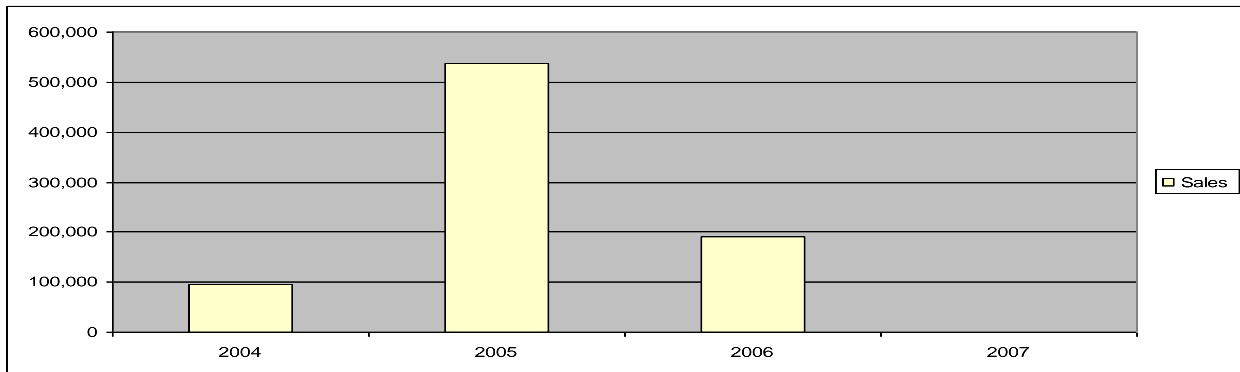


Figure 3.13: Nominal sales at TCF after privatisation

Figure 3.14 compares the sales of before with those after privatisation. Sales figures of after privatisation are lower than before privatisation. The average sale figures from 2001 to 2003 is LD 269,920 ($221,245) while the average sales of 2005 through 2007 was LD 243,401 ($199,509).

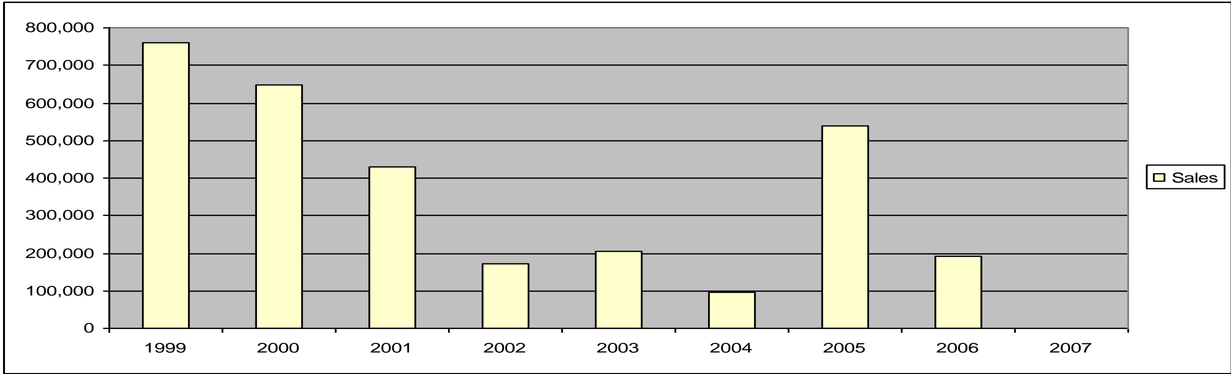


Figure 3.14: Nominal sales at TCF before and after privatisation

The output data (table 3.5) showed that the real sales increased by 448 percent from LD 126,027 ($103,300) in 2004 to LD 691,175 ($566,536) in 2005. In 2006, the real sales increased by 82 percent, compared with 2004, to reach LD 229,674 ($188,257), and then dropped to zero in 2007. TCF experienced an increase in the real sales of 265 percent on average, compared with 2004. However, real sales of 2006 were less than in 2005; they were reduced to zero as TCF stopped manufacturing.

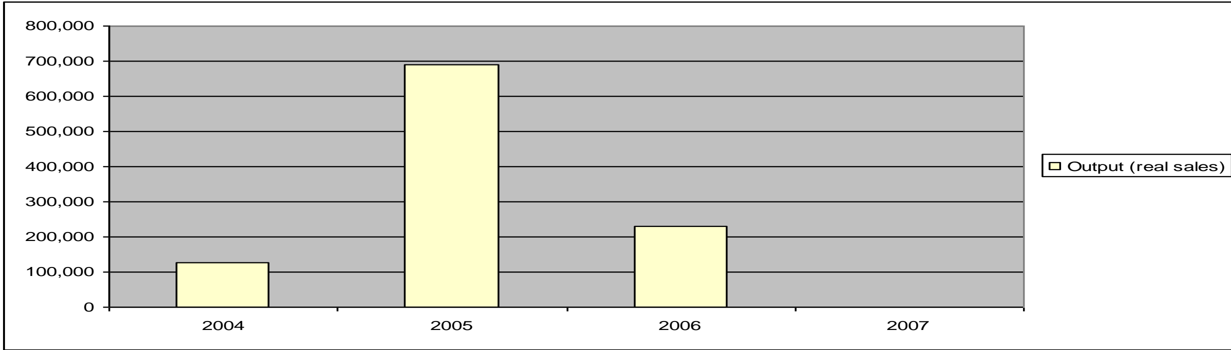


Figure 3.15: Output (real sales) at TCF after privatisation

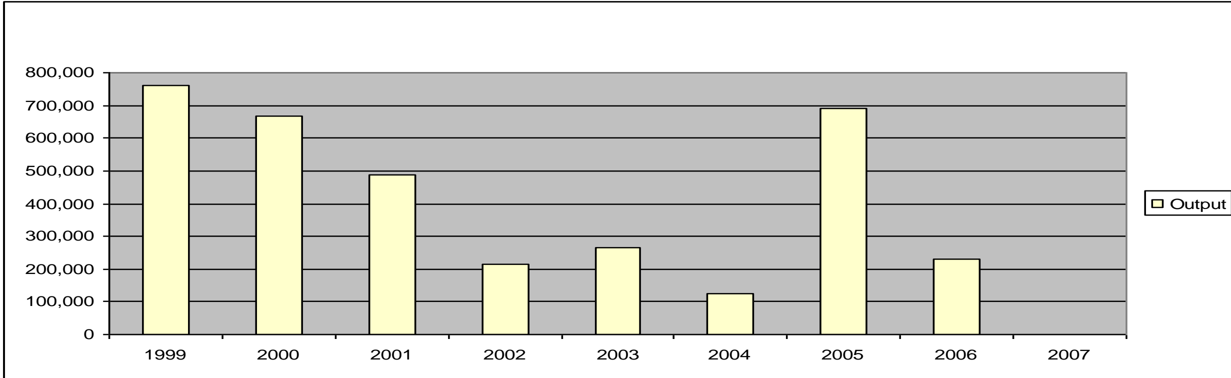


Figure 3.16: Output (real sales) at TCF before and after privatisation

Figure 3.16 illustrates that the real sales after privatisation are on average somewhat lower than before privatisation. The average output over 2001 to 2003 are LD 322,423 ($264,281), after

privatisation it declined to LD 306,949 ($251,597). This demonstrates that no improvement was made after privatisation.

Operating efficiency

The measures of the efficiency proxies found that the SALEFF increased from LD 1,340 ($1,098) in 2004 to LD 8,131 ($6,664) in 2005. In 2006, it increased to LD 2,870 ($2,352), compared with 2004. The same trend of profitability ratios applies to the NIEFF, as it was negative for the successive years from 2005 to 2006, due to the net losses over this period. Until 2006, TCF experienced an increase in the SALEFF of 310 percent on average, compared with 2004, while it reported a negative NIEFF. Figure 3.17 shows that the SALEFF in 2006 were less than those of 2005; they even disappeared in 2007 as TCF stopped manufacturing.

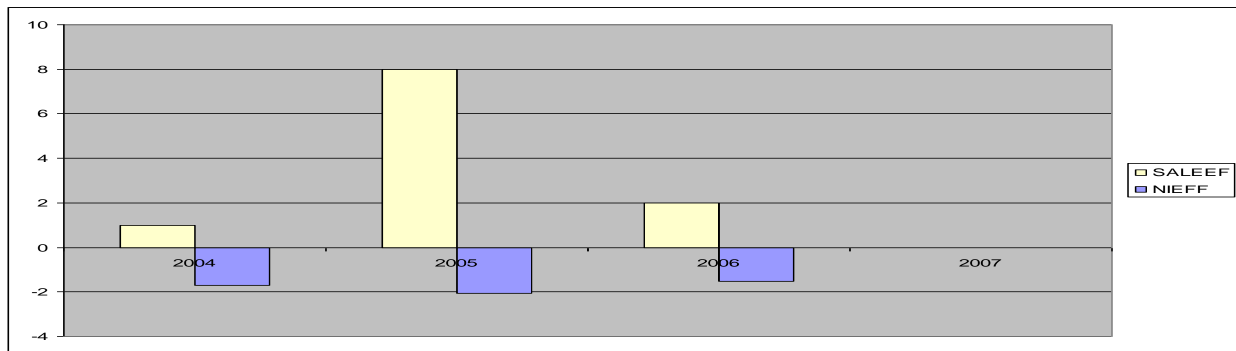


Figure 3.17: Efficiency proxies: SALEFF & NIEFF at TCF after privatisation

A graphical representation of the comparison before and after privatisation is depicted in figure 3.18, showing that the efficiency measures fluctuated.

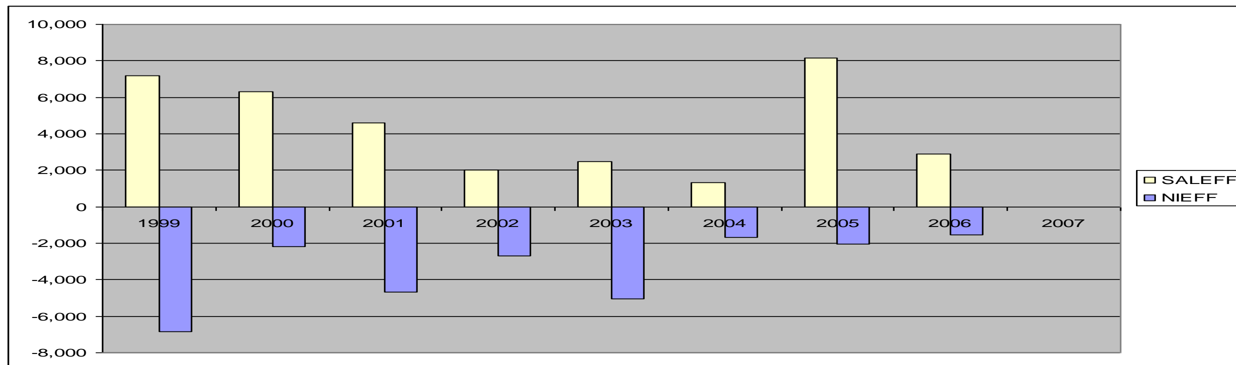


Figure 3.18: Efficiency proxies: SALEFF & NIEFF at TCF before and after privatisation

The SALEFF improved dramatically after privatisation, but it declined in 2006 to levels similar to those before privatisation. The average of the SALEFF over three years of before privatisation is LD 3,041 ($2,492), after privatisation it is improved to LD 3,667 ($3,005). The NIEFF improved after privatisation, but remained still negative.

3.2.7 Conclusions

Privatisation process

In June 2002, the government hired an expert team to conduct a study of TCF. The aim of this study was to determine if it would be preferable for TCF to continue operating under an umbrella of the public sector or whether it should be privatised. TCF was found to be in serious trouble and therefore needed to be restructured before its privatisation. In April 2004, the employees created a new company. It dealt with excess employees, selected a board of directors, and hired executive managers. In August 2004, the initial decision of sale was signed. After this, to make it possible for GBOT to establish the final market value, stocktaking activities took place. These activities dealt with debts and assets auditing. In December 2006, the final sales agreement was signed. After the sale, the working contract was changed from lifetime to annual employment contracts, while 14 workers voluntarily left the factory. The role of management was redefined with more authority to handle activities in their respective areas. The net income was divided into three parts, including a salary part, to motivate the employees.

The process steps followed were slightly different from what was expected based upon the framework from chapter 2. In particular, the steps during the 'actual' privatisation were different. It started with an initial firm valuation and that an initial agreement was signed in the middle of the process, i.e. when the final value was not yet assed this is depicted in figure 3.19. With regard to the factors, some of them were more relevant than others during the process. Economic and political factors were most relevant for the feasibility study. The financial condition of the company was important as well as the government ideology (change to private companies) and the ownership structure. During the privatisation process, restructuring activities were mostly concerned with microeconomic factors (financial situation of the company and organisational structure). Restructuring after the privatisation was mostly related to microeconomic factors (organisational structure).

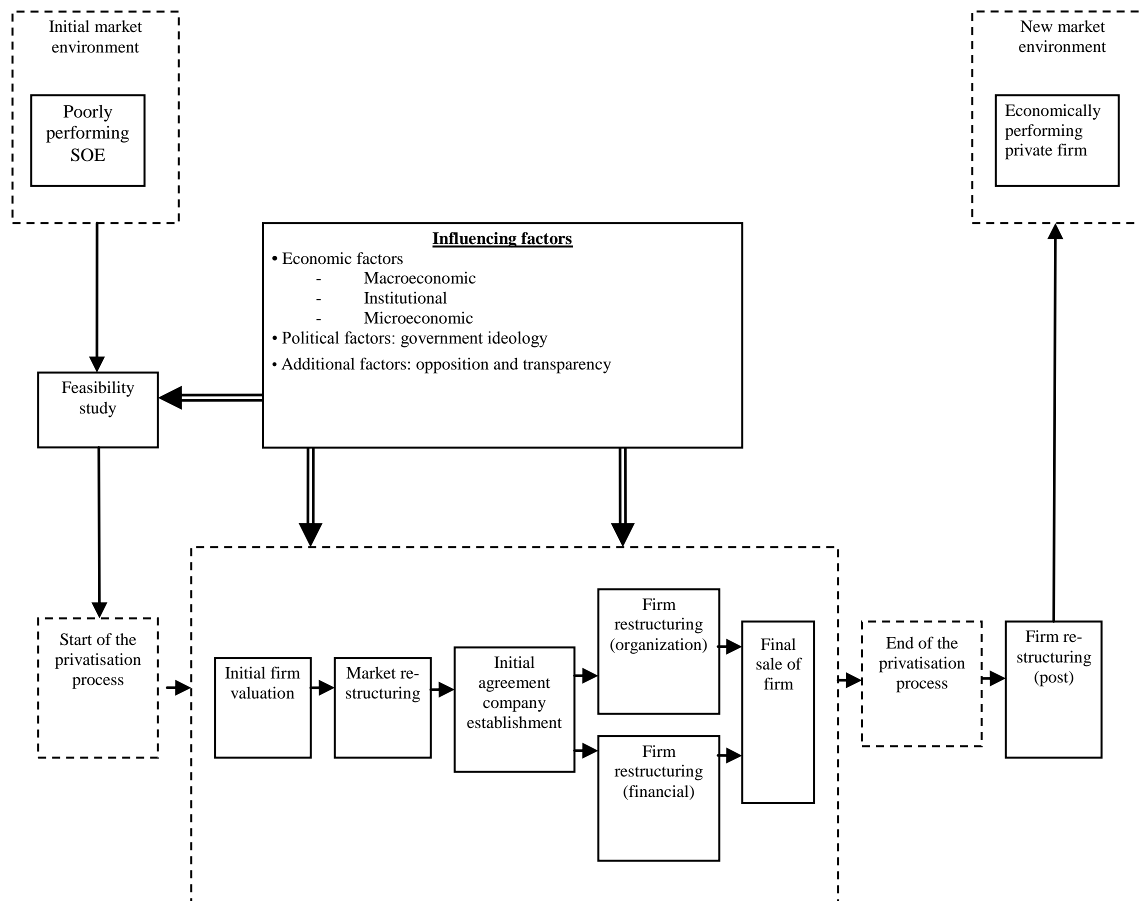


Figure 3.19: TCF privatisation process

Performance comparison

With respect to the performance changes over pre- and post-privatisation, TCF experienced an increase in the sale efficiency, but a decrease in the sales and output. It remained a loss-maker and ceased manufacturing in early 2007 due to the lack of demand. One aspect of it was the foreign competition that increased after privatisation. Its foreign rivals were equipped with new technology, more over, they provide credit for their customers. This could not be matched by TCF. The factory also suffered from high operating costs as a result of excess labour and old machinery. The factory also had a lack of working capital due to the exclusion of the land from the transformation that made it impossible to borrow money from the bank. The transferred control to the insiders who lacked both marketing skills and sufficient capital lead to the situation that the company was unable to improve performance. Table 3.6 provides an overview of the performance comparison at TCF.

Table 3.6: Overview of performance comparison at TCF

Measurement	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Nominal sales (LD)	760,312	648,450	431,036	172,241	206,484	95,277	538,426	191,778	0
Sales trend (% growth compared to 1999 or 2004)		(15)	(43)	(77)	(73)		465	101	(100)
Gross profit (loss) (LD)	(584,870)	(117,324)	(153,893)	(164,269)	(392,869)	(4,098)	(16,952)	15,971	N.A.
Net profit (loss) (LD)	(726,608)	(226,456)	(440,223)	(227,775)	(417,500)	(120,119)	(135,448)	(102,525)	N.A.
Profitability ratios:									
ROS	(0.955)	(0.349)	(1.021)	(1.322)	(2.021)	(1.260)	(0.251)	(0.534)	N.A.
ROA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Output: real sales (LD)	760,312	667,816	487,046	215,840	264,384	126,027	691,175	229,674	N.A.
Output trend (% growth compared to 1999 or 2004)		(12)	(36)	(72)	(65)		448	82	(100)
Efficiency ratios:									
SALEFF (LD/employee)	7,172	6,300	4,594	2,036	2,494	1,340	8,131	2,870	N.A.
NIEFF (LD/employee)	(6,854)	(2,200)	(4,692)	(2,692)	(5,034)	(1,690)	(2,045)	(1,534)	N.A.
Number of employees	106	106	106	106	106	94	85	80	80

Realisation of objectives

Several perspectives can be taken when considering whether the privatisation was successful or not. First, from a government perspective, the privatisation can be considered successful with regard to its organisational format, i.e. the ownership went from fully publicly owned to fully employee-owned. Second, from a management perspective, the company was not performing well before privatisation; this is why it was placed on the list of companies to be privatised. One of the clear advantages of the privatisation was that the factory's debt was cleared. The dramatic increase of sales during the first year of privatisation (2005), did not prevent a loss in that year. This increase was achieved by an all-out effort by the new owners. The effect of this could not be repeated in the following years, and the situation deteriorated further. Ultimately the performance after privatisation did not improve, and in 2007 TCF stopped manufacturing.

Third, from an employee perspective, privatisation changed TCF from a highly centralised organisation to a decentralised organisation. It also provided the employees with better incentives, to make them feel responsible for the factory's assets. Privatisation reduced the number of employees from 106 in 2001 to 80 in 2007. The working contracts were changed from lifetime to an annual renewable contract, which meant less security for employees. In a way, the employees were presented with a choice to buy the company, look for another job or potentially lose their job if the company could not be sold. At the end, however, those who decided to buy the company eventually lost not only their job, but also the money they invested in the company.

Overall, it can be assessed that the privatisation was not successful in creating a sustainable private company. Main reasons for this were that management lacked experience in dealing with a competitive, i.e. not state-controlled, business environment; employees became owners but by doing this not enough excess employees could be let go. Related to this, since most of the employees remained at the company, this probably did not lead to sufficient attitude/performance changes. Finally, due to the restrictions on the sale, the company was not able to acquire additional financing to, upgrade the production technologies. This means that the overall objective, to become a viable enterprise, was not achieved.

3.3 Infant Food Processing Factory (IFPF)

The second case study was carried out at the Infant Food Processing Factory (IFPF). This company was also part of the Al Mamura Food Company.

3.3.1 IFPF background

Infant Food Processing Factory (IFPF) was founded in October 1978, its operation process officially began in August 1979. At that time, the factory had a capital of LD 3 million ($2.4 million) and employed 120 people who worked in one shift. IFPF is located 40 km west of Tripoli, in the Al Mamura region, and occupied a total land area of 60,000 m^2. Similar to the case of TCF, the factory was merged in 1979 with other public factories to form the Al Mamura Food Company (AFC), see section 3.1. IFPF is specialised in processing infant food including cereal products, biscuit, and juices. Production uses basic raw materials such as chickpeas, lentils, rice, powdered milk, honey, bananas, and apples. IFPF had three production lines. The initial total design capacity of these lines was 1200 tons annually. The first line produces grain products with an annual capacity of 200 tons. It comprises a grain milling unit, a preparation unit, a boiling and drying unit, and a packaging and binding unit. The second line contains fruit products, produces peach and apricot juices. This section has an annual capacity of 150 tons. It also produces fruit paste, with an annual capacity of 500 tons. The third production line produces a mix of vegetables and meat. This line has an annual capacity of 350 tons.

During the 1980s and early 1990s, IFPF shared the market in Libya with the Lobda infant food factory. Their main customers were public supermarkets, organisations, and pharmacies that were controlled by the government as part of the government program to regulate internal trade policies. However, with the privatisation and liberalisation programs of the 1990s, IFPF was faced with a strong competition from a large number of small private businesses that became involved in importing infant food from abroad. Some were founded in the first wave of privatisation, and others followed in the second wave, see chapter 1.

IFPF became a loss-making company for several years. This was attributed to the loss of state support, which resulted in a shortage of raw materials. This made it very difficult for the factory to operate in a regular manner. One option that was considered for IFPF's survival was privatisation. In 2003, IFPF was placed on the list of 360 public firms to be privatised.

3.3.2 Situation before privatisation

The performance as SOE

To obtain insight into performance, the profitability, output, and efficiency data is presented in table 3.7.

Table 3.7: Profit and loss data from IFPF before privatisation

Measurement	1999*	2000	2001	2002	2003
Nominal sales (LD)	595,653	429,218	752,948	131,824	0
Sales decline (% compared to 1999)		28	(26)	78	100
Gross profit (loss) (LD)	(128,152)	(74,445)	(5,592)	(583,770)	(222,757)
Net profit (loss) (LD)	(237,994)	(187,412)	(510,189)	(644,593)	(249,565)
Profitability ratios:					
ROS	(0.399)	(0.436)	(0.677)	(4.889)	0
ROA	N.A.	N.A.	N.A.	N.A.	N.A.
Output: real sales	595,653	442,037	850,788	165,192	0
Real sales decline (% compared to 1999)		26	(43)	72	100
Efficiency proxies:					
SALEFF (LD/employee)	10,636	7,893	15,192	2,949	0
NIEFF (LD/employee)	(4,249)	(3,446)	(10,294)	(14,424)	(5,706)
Number of employees	56	56	56	56	56

*The 1999 s are taken as a baseline for the period before privatisation.

Profitability

Table 3.7 shows that IFPF reported gross losses as well as net losses. Net losses increased from LD 237,994 ($195,077) in 1999 to LD 644,593 ($528,3524) in 2002. In 2003 these losses declined to LD 249,565 ($204,561). These losses were attributed to the high operating expenses which were because of the old machinery. They lead a negative return on sales (ROS) for the successive years from 1999 to 2003. Figure 3.20 provides a graphical presentation of losses. Figure 3.21 shows the ROS (ROA data were not available as explained under the TCF case). This clearly shows that IFPF was a consistent loss-maker prior to privatisation.

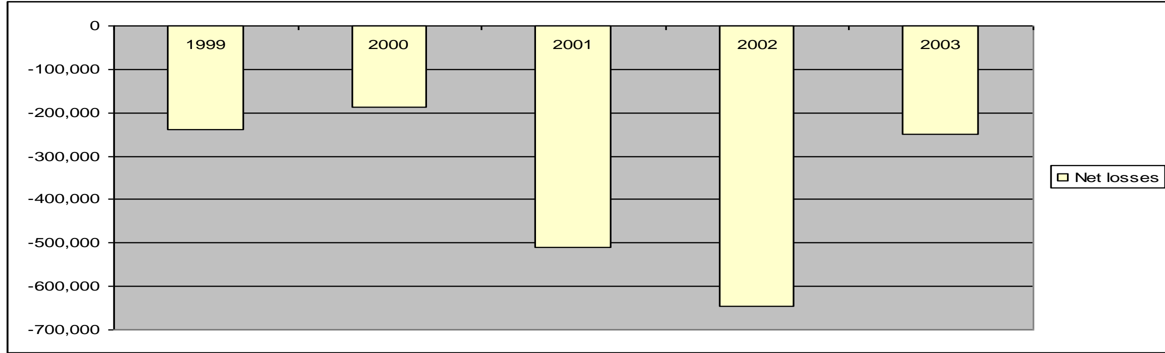


Figure 3.20: Net losses at IFPF before privatisation

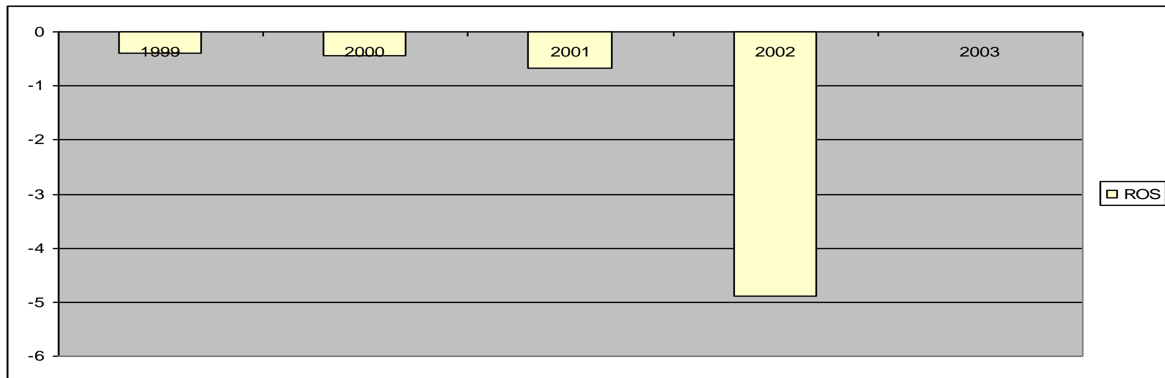


Figure 3.21: Profitability ratio: ROS at IFPF before privatisation

Output

In 2000, the sales figures decreased by 28 percent compared with 1999 to LD 429,218 ($351,818). The decrease was attributed to the situation that IFPF became neglected by the state. It used to receive raw materials from AFPC, but this flow of materials had been markedly reduced and sometimes delayed. Not having enough raw materials made it very difficult for IFPF to operate in a regular manner. In 2001, the sales increased by 26 percent to reach LD 752,948 ($617,170), compared with 1999. In 2002 they dropped 78 percent compared with 1999 to reach LD 313,824 ($257,232), and no sales were made in 2003. Figure 3.22 shows this sales pattern.

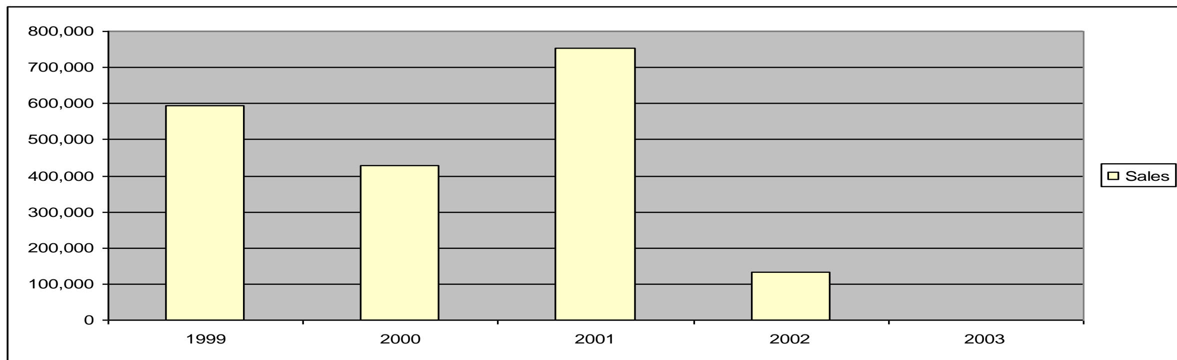


Figure 3.22: Nominal sales at IFPF before privatisation

The output (real sales) decreased by 26 percent from LD 595,653 ($488,240) in 1999 to LD 442,037 ($362,325) in 2000. Similar to the nominal sales, it increased by 43 percent in 2001, compared with 1999, to reach LD 850,788 ($697,367). In 2002, real sales dropped by 72 percent compared to 1999 (LD 165,192) and in 2003 no sales were achieved. Figure 3.23 illustrates a steady decline over the years with the exception of 2001.

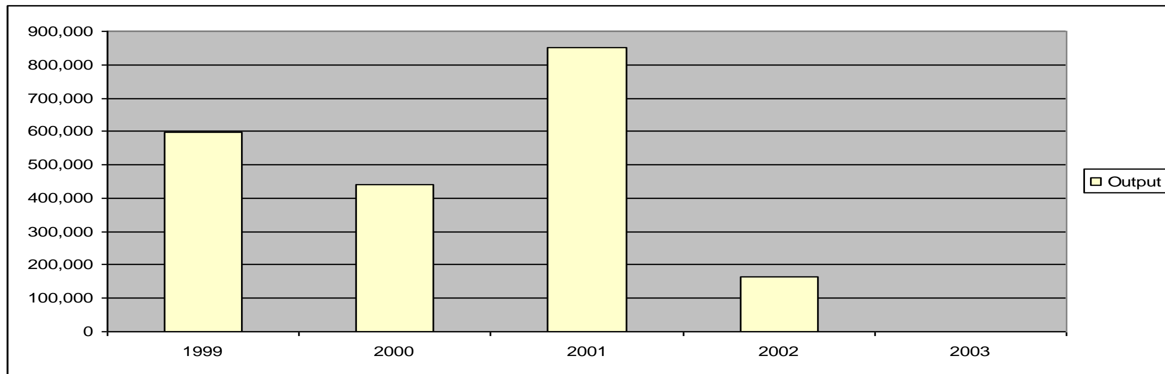


Figure 3.23: Output (real sales) at IFPF before privatisation

Operating efficiency

Measurements of two efficiency proxies showed that the sales efficiency (SALEFF) decreased from LD 10,636 ($8,718) in 1999 to LD2,949 ($2,417) in 2002. Figure 3.24 shows that the sales efficiency steadily declined except in 2001. The NIEFF was negative in all of the years but improved in 2000 and 2003.

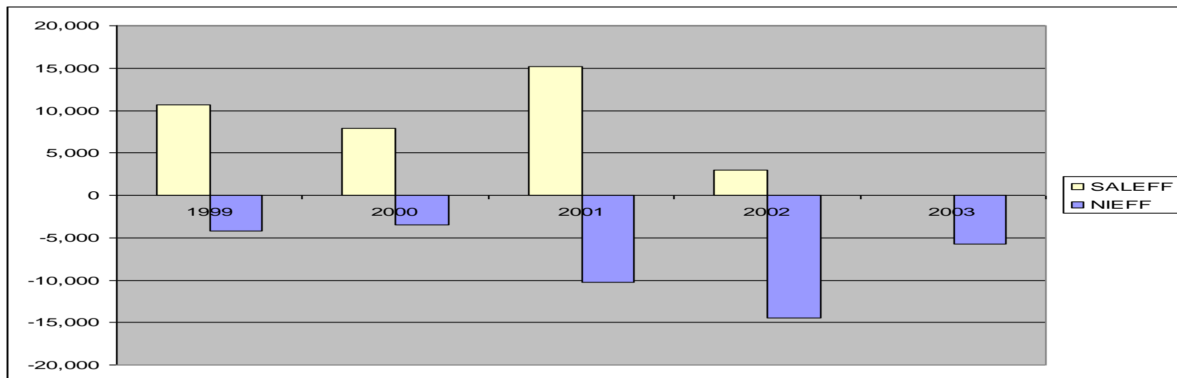


Figure 3.24: Efficiency proxies: SALEFF & NIEFF at IFPF before privatisation

Organisational structure

The organisation chart

IFPF had an organisation structure that was approved by the Ministry of Industry on August 1993. It consisted of three management levels related to AFC, as discussed in section 3.1. The third level, i.e. the IFPF company, is depicted in figure 3.25.

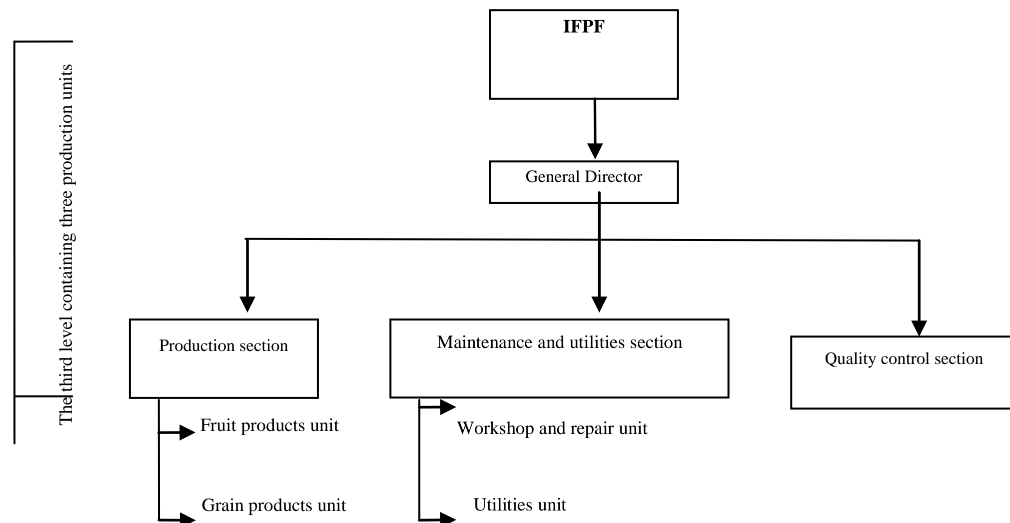


Figure 3.25: The organisation chart of IFPF before privatisation

IFPF consisted of three sections: a production section, a maintenance and utilities section, and a quality control section. The production section was divided into a fruit products unit and a grain products unit. The maintenance and utilities section was subdivided into a workshop and repair unit and an utilities unit. Each unit of these sections had its own supervisor, who was directly accountable to a manager of his section, who was responsible for the coordination between these units. The managers of the functional sections were in turn accountable to the general director who was responsible for the coordination between these sections. He was accountable to AFPC where all decision-making activities were administered. AFPC was, in turn, accountable to AFC, which had autonomy in planning and financing matters. Finally, AFC was administered by the ministry of industry that helped to get government subsidies. As was the case with TCF, the managers stated that this factory structure offered limited flexibility to cope with internal changes.

The management

IFPF was run by a general director with a university degree in food manufacturing who had been working in the factory since 1998. Before that, he worked at Al Mamura Food Company (AFC). He was appointed to IFPF by AFPC to supervise the day-to-day activities in the factory and to report regularly to AFPC about the general performance of IFPF. The general director actively participated in the preparation of the work programs and business plan. In addition to the general director, there were three managers. These managers were appointed by AFPC. They were required to implement the decisions in accordance with the predetermined guidelines handed down by AFPC as the central authority.

The production manager had a bachelor of agriculture degree and 12 years of experience at

IFPF. Among other responsibilities, he determined the requirements of the production, monitored the workers during the production process, and submitted regular production reports to the general director. The maintenance manager, with a higher diploma of manufacturing studies, had been working at IFPF since 1978. Before that, he had worked at AFC since 1976. He worked closely with his staff to plan and monitor the maintenance and safety activities. Lastly, the quality control manager, with a bachelor of agriculture degree, was responsible for the inspection services and quality control activities.

The employees

In 2001, IFPF had a total of 56 employees who held lifetime contracts with employment grades ranging from third to thirteenth grade. They all had been working at IFPF for a minimum of ten years. 78 percent of the employees had received secondary and primary education. Twelve percent had undergone vocational education, and the remaining 10 percent had diploma and university degrees. In general, it was estimated that about 75 percent of the employees were skilled. This estimate was based upon their years of working experience and knowledge of the production process.

Incentive policies

The salary system at IFPF was set by law no. 15/1981, which was concerned with the salary in the public sector and determined salary levels and compensation forms. Under this law, the average basic monthly salary, at IFPF, was about LD 245 ($200) in 2001. The employees considered their salary very low taking into account the rising costs of living. No substantive adjustment had been made to the salary system since 1981. The managers were required to implement the decisions in accordance with the predetermined guidelines handed down to them by AFPC and AFC. This meant the major decisions had to pass through multiple organisations, which made the factory dependent. The managers did not have full decision-making authority and hence were fully dependent on AFPC. AFPC in turn was required to contact AFC about major decisions. In addition, the employees were paid irregularly. They expected to receive a monthly salary, but in the period before privatisation they were paid once every two to three months.

3.3.3 Feasibility study

The execution of the feasibility study is similar to that previously discussed for TCF (section 3.2.3). It was recommended that IFPF be partially offered to foreign investors, but that several restructuring measures were necessary prior to privatisation.

3.3.4 Process of privatisation

This section deals with the actual process of privatisation. It focused on firm-level activities that were conducted to privatise IFPF and to the institutional activities that surround privatisation, such as market regulations.

Initial firm valuation

According to resolution no. 100/2004, the GBOT was given permission to privatise IFPF at an initial fixed price of LD 307,274 ($251,863), reflecting the value of fixed assets. To execute this resolution, the GBOT created a supervisory committee consisting of representatives from AFC, IFPF, the labour union, the municipality, and the GBOT. It was asked to monitor the process of privatisation of IFPF. An establishment committee was also created to assist the GBOT to obtain the final market value of IFPF. It was chaired by the maintenance manager and also three additional members. A legal editor was also hired to declare a new privatised company.

Preparation: market restructuring

Following the feasibility study, the government decreed a number of legislations in early 2003 concerning economic reform in general and the privatisation program in particular. For more information about market preparations, see section 1.3.4.

Initial agreement and establishment of a new company

The establishment committee started by inviting the employees to a meeting during which they outlined the initial market value of IFPF and described the details of the privatisation as indicated in the resolution. At this meeting the employees were informed that they could buy the company, i.e. buy shares in IFPF. Several alternatives to do this were explained to them. These were similar to those outlined in the TCF case. After this meeting all, except for two, of the employees decided to participate in buying IFPF shares. The two employees who decided to leave wanted to start their own business. The employees who were interested in buying IFPF were asked to establish a new company to take over IFPF. The employees followed this advice and created a new company, named *Tashrukya* of IFPF, with a starting capital of LD 15,000 ($12,295). This sum, in accordance with the legislation, was requested as necessary cash to meet the government requirements for establishing a small company.

Preparation: firm restructuring – organisational structure

Organisation

IFPF has a structure which is headed by the general assembly that reflected its ownership and independence (figure 3.26). The general assembly was comprised of a president, a vice-president, and all shareholders, who, as owners of IFPF, had the right to participate in the affairs of the factory. The new structure also consisted of a board of directors that was formed by the general director and two additional members. This constitution of the board of directors reflected the ownership structure and the power-sharing. The board was chaired by a manager, with a bachelor of accounting degree, who was also president of the general assembly. He supervised the day-to-day operations of the factory. The first member was a

food-processing engineer who was also responsible for purchasing. The second member was the production manager. The board was elected by the general assembly, based on their qualifications and experience, to run the factory on behalf of the general assembly for a minimum period of four years. The board was responsible for strategic decisions; they defined and submitted the factory's policies and plans to the general assembly for approval.

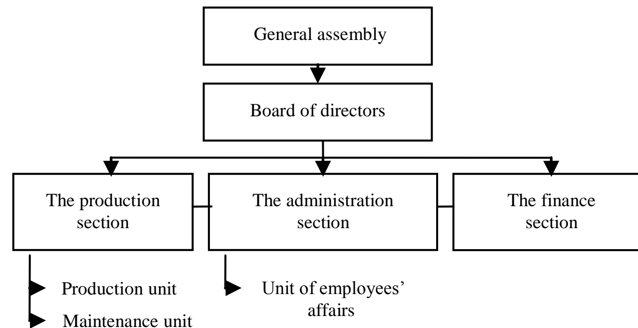


Figure 3.26: The organisation chart of IFPF created during the privatisation process

The former maintenance and quality control sections merged with the production section in order to assign the tasks more efficiently. The production section was divided into a production unit and a maintenance unit. A new administration section was created to manage administration affairs within the factory. A new finance section was also created to manage the financial affairs within the factory. The goal of these changes was to decentralise the decision-making process and to shift more responsibility to the executive managers. One person with full authority was put in charge of each section in order to facilitate fast decision-making and reduce costs.

Management replacement

The executive managers were appointed by the board of directors for a period of four years. Relevant aspects like qualification and experience were considered during the appointment process. They were required to carry out day-to-day activities in IFPF and provide the board with detailed explanations on matters falling under their competency. The production section was headed by a technician, with a primary-school level of education, who was also a member of the board. He planned, directed, and coordinated the production activities required to produce the goods manufactured in IFPF. The administration section was headed by a manager with a primary-school level of education. He executed all managerial matters including the organisation of office files, documents, and equipment. The finance section was headed by a manager holding a university degree in accounting, who officially represents the factory at outside meetings. He had been transferred from outside AFC. The finance manager was responsible in monitoring financial and accounting activities.

Table 3.8: Management position changes at IFPF

Position	Existing or new position	Change
General manager	Existing position	New person from IFPF
First manager deputy	New position	New person from IFPF
Second manager deputy	New position	See production manager
Production manager	Existing	New person from IFPF
Maintenance and utilities manager	Position was removed	
Quality control manager	Position was removed	
Finance manager	New	New person from outside of AFC
Administration manager	New	New person from IFPF

Employee reduction

Two employees accepted the state's offer and decided to leave IFPF to start their own businesses. This meant the new company was created with a total of 54 employees who were also the owners of IFPF.

Preparation: continued firm restructuring – financial

To move forward with the apparent consensus for *Tashrukya* of IFPF, the initial article of incorporation was signed in August 2004 between the chairman of GBOT and the general director. Article no. 1350 reveals that IFPF was purchased by its employees for an initial price of LD 307,274 ($251,863), excluding the land value. This is the same amount as the initial firm valuation. The establishment committee was requested to carry out stocktaking activities that would assist the GBOT to establish the final market value of IFPF.

Dealing with debt

The committee investigated the liabilities account to identify all fiscal obligations held by IFPF. They concluded that in August 2004 IFPF had total financial obligations of LD 168,885 ($138,430), (see Table 3.9).

Table 3.9: Debt of IFPF as of 31/08/2004

	LD	US$
Social security fund	74,943	61,428
Taxes	67,627	55,431
Joint-liability fund	7,875	6,454
National investment company	9,429	7,728
Food products union	1,217	997
Public treasury	2,039	1,671
Electricity company	5,755	4,717
Total	**168,885**	**138,430**

Source: Report of stocktaking activities at IFPF.

These obligations were transferred to the DMF, which settled them through negotiations with third parties. The committee also investigated the unpaid salary and compensation for the employees. It was established that in August 2004 the employees had total outstanding payment of LD 102,374 ($83,913), (see Table 3.10).

Table 3.10: The outstanding payments for employees at IFPF on 31/08/2004

	LD	US$
Unpaid salaries	49,489	40,564
Compensations	40,128	32,891
Other payment	12,757	10,456
Total	**102,374**	**83,913**

Source: the report of stocktaking activities at IFPF.

According to this report, on September 2004, the last salary paid was for April 2004. This confirms the claims of irregular payments made to the employees in the period before privatisation. These outstanding payments were also transferred to the DMF, which took care of the paying the employees.

Asset auditing

The committee conducted a stocktaking exercise to assess the assets of IFPF. The production lines, equipment, buildings, furniture, and transportation were all investigated and reports about each of them were made. However, this investigation was done superficially, and the exact situation on the shop floor was not investigated. No activities were undertaken to invest in modernisation. The reason for this was that the government wanted to avoid delays in the privatisation process.

Sale of the firm/change of ownership

Following the stocktaking activities, the minutes of delivery and the receipt were signed on September 2004 between the former general director and a representative of IFPF (the finance manager). This was supervised by the established supervision committees. The valuation report was sent to GOBT to establish the final market value of IFPF. In December 2006 the final article of incorporation no. 45/74 was signed. This article shows that the final market value of IFPF was LD 969,900 ($795,000), excluding the land. This value was LD 662,626 ($543,136) more than the initially established value of the company, an increase of 216 percent. Similar to the TCF case, this was due to the inclusion of current assets in the final sales price. Furthermore, the debt (from the previous section) was LD 271,259 ($222,343).

The article also reveals that the total sale value would be paid through five annual instalments from September 2007 to March 2011, LD 193,980 ($159,000) for each instalment.

The managers were very critical of the exclusion of the land from the transformation

because, similar to the TCF case, it formed the main barrier to obtaining a business loan. They also argued that the established market value of the factory was too high and did not reflect the real asset value. They stressed that the factory was located in a very old building and equipped with old machinery. Three of the production lines, including the grain line, the fruit line, and the vegetables and meat line, had been out of the work. This had decreased the annual production capacity from 1200 to 600 tons.

3.3.5 Restructuring after privatisation

This section covers the period after privatisation from 2005 until 2007.

The new industry environment

IFPF was purchased by 54 employees of the factory and sought to retain their employment. The managers argued that IFPF started its operation without any financial resources, and therefore was not able to finance the manufacturing process. They responded to this situation by seeking suppliers who were willing to provide input materials with delayed payment terms. They managed to obtain an agreement with a local investor who agreed to provide input materials and receive finished products. The employees were not engaged in marketing activities, but were in charge of production and technical affairs. The managers also wrote several reports to the government explaining their problems and asking it for support to get access to raw materials. They did not receive a response from the government. In early 2007, IFPF was sold to domestic investors who plan to conduct maintenance activities on the building and machinery.

Firm restructuring

Management replacement

The administration manager replaced the former general director, who left the factory after privatisation. He has a secondary-school level of education. The finance section was headed by a manager who holds a degree in accounting. He was brought in from the outside to work on a personal contract basis, renewable every year by the board of directors. The board coordinated with the managers and workers to perform similar tasks as the other co-workers, even maintenance activities. Therefore, all employees, including the board members, physically work alongside each other performing similar tasks.

Employee reduction

Following privatisation, the working contract was renegotiated from a lifetime contract to an annual contract. Thirty-five employees voluntarily left the factory between 2005 and 2006 to join other government agencies. They departed not because of the change in the working contract but because the performance of the factory did not improve after privatisation. It was perceived that the factory had an insufficient workforce to operate in an efficient manner with the remaining 19 employees. The managers responded to this by

hiring five additional employees on the basis of a personal contract, renewable every year by the board of directors. Thus, the total number of employees after privatisation was 24. This included 19 owners of IFPF and 5 employees with a renewable personal contract.

Incentive policies

Following privatisation, IFPF was no longer financed by the AFC, and the national salary rate was no longer being paid. The managers responded to this situation by dividing the net income into three parts. One-third was classified as reserved for the salaries and was equally distributed among the employees. The second part of the net income was deposited in a collective account that could not be appropriated by the employees. The final part was retained and invested in a major capital account that was to be devoted to rejuvenating the factory. The finance manager stated that the factory did not pay a regular salary either monthly or quarterly, but that payment depended on the performance achieved. According to the managers' estimation, the average monthly salary was LD 350 ($286) in 2006. This is somewhat more than the average monthly salary of LD 245 ($200) in 2001.

Despite the fact that IFPF had an official structure of authority and accountability, the employees agreed to work together without setting up a system of authority. This meant any member of the factory, including the board of directors, could perform similar tasks as the co-workers. This was mainly because the factory had an insufficient workforce. It was possible due to the fact that the technology applied in the factory was well understood as no significant changes had been introduced for many years. IFPF had become independent in making all business decisions, and many of the functions that were previously centrally handled by AFPC and AFC were now more efficiently handled by the managers. One example was stated by the general director who said, *a few months after the privatisation, technical problems emerged. We were able to identify the problem in one hour and fix it in one day. If this type of problem occurred before privatisation, it would at least take a few days to get it fixed.*

3.3.6 Performance of privatised firm

No well-organised and comprehensive data for IFPF could be found for the period after privatisation. The only available data were information that described daily cash movements and, for example, what kind of raw material was bought, how much it cost, how much money was lent and to whom. The finance manager explained this as a result of not yet having closed the accounts over those years. This limits the opportunity to measure the performance change after privatisation. Since hard data was not available, it was decided to use the perceptions of key informants about the performance after privatisation compared with the situation before privatisation.

Based on the perceptions of the management, *IFPF in general was able to make a small profit after privatisation*. This was based on the amount of the work they undertook for

incoming orders. And on the payments received for each order. One manager said, *the factory can be considered to be performing well as long as there is work to do and we receive payments for each task we perform*. With regard to the effects of competition on the factory's performance, the general director stated that, *despite the growing competition in the infant food market, our products are popular in the domestic market, and there are sufficient orders coming from individual domestic distributors. But the main problem is the lack of money to finance the operation process and therefore satisfy the growing amount of orders.* Another manager said, *what would help the factory a lot would be a complete change in the technology we are using, but we do not have enough capital for such an investment.* Despite these perceptions of the situation after the privatisation, it cannot be accurately established whether real improvements have occurred. This is based on two facts. First, most of the managers who were aware in detail of the factory's performance left the company. Second, the company was sold to an outside investor. The outside investor paid the employees the amount that they paid for the company when it was privatised. Since then, no production has taken place at IFPF.

3.3.7 Conclusions

Privatisation process

The employees were critical of the procedure followed by the government during the privatisation process. They complained about the ownership of the land that was excluded from the transformation which was an obstacle for obtain financial resources from commercial banks.

They also complained about the transparency of the valuation process. They claimed that they have bought IFPF at high price which does not reflect the real value of the factory. Because the factory is suffering from insufficient building quality and it is still equipped with old machinery. According to a general manager, IFPF was operating below its capacity, which is decreased by 50 percent from 1200 to 600 tons annually.

Labour development

The government offers mix of options to the employees, who did not want to buy their share in the factory. According to the general director, all employees expected that the government might not keep its promises. This is why a large number of employees decided to buy the factory at early step of the privatisation. However, later on when the employees heard that some other employees at other factories were already transferred by the government to education and security sectors, they decided to leave the factory and join other government agencies. The remaining employees are unqualified and insufficient to run the IFPF as well as they suffer from the lack of money.

The managers have responded to the employee reduction by hiring five additional employees who work under personal renewable contracts. They also agreed to apply

friendly model to operate the factory. Everyone in the factory, including the general director, could be asked to perform any task within his range of competence. This means all managers were sent to the workshop to work on the production line and follow-up the manufacturing process. This also means no one could sit in his office and send his order to the workers. In addition, if any technical problem occurred with the machinery, all employees, including the general director, would participate in identifying and fixing the technical problem. Technology applied to IFPF is well understood as no real change in technology happened since the 1980s.

Performance Comparison

In the earlier stage of the manufacturing process, IFPF faced a large order from public supermarkets and organisations. They were directed by the Ministry of Economy to order from IFPF as part of the government program to regulate internal trade policies.

However, privatisation and trade liberalisation in 1993 had flooded the market with similar imported products. A large number of small private businesses had involved in importing infant food from neighbouring countries. This was followed by a gradual decrease in demand, which had created serious drop in the sales.

The restrictive monetary policy that was adopted by the government was another major change of the 1990s that had affected IFPF. Since IFPF was financed by the state budget, the restrictive monetary policy had created shortages of cash and in turn shortages of raw materials. This caused serious problems for IFPF and made it very difficult to compete with imported products. Since then, IFPF was known for its loss-making. Due to particularly low demand for its products and strong competition from similar products imported from neighbouring countries. In addition, the cut of government budget caused shortages of raw materials and in turn made it much worse to continue with manufacturing process.

Following privatisation, they managed to recover from most of the losses and IFPF has made a small profit. However, there still has been a significant increase in the foreign competition, particularly with the removing of international sanctions. This has decreased demand for the factory's products. The managers reacted to opening up the market by seeking new distributors who would cooperate in marketing their products. They managed to establish a distribution network, which allowed the factory to develop its own sales channels, with several small shops. Such distributorship agreements were done through word of mouth and the distributors were agreed to sell the products of IFPF.

IFPF was suffering from inadequate buildings that were built in the 1980s and equipped with old machinery that dated from the 1980s. Its production capacity decreased by 50 percent from 1200 to 600 tons annually due to technical reasons. IFPF seriously needed to improve design and technology, but this would only be possible with the addition of a large amount of capital.

In early 2007, the managers sold-out the IFPF to domestic investors, who planned to

maintain the buildings and renew the machinery. In the sales contract the managers and domestic investors agreed that when the maintenance activities are finished the managers and workers will get their job back.

Realisation of objectives

With regard to meeting objectives, similar observations can be made as for the first case. Two differences were that the excess employee situation was handled better at IFPF, i.e. more employees left, and in fact additional employees had to be hired. Secondly, the company was sold to another investor. Until now it is uncertain whether the investor will be able to get the factory operational again.

Table 3.11: Overview of performance comparison at IFPF

Measurement	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Nominal sales (LD)	595,653	429,218	752,948	131,824	0	N.A.	N.A.	N.A.	N.A.
Sales decline (% compared to 1999)		28	(26)	78	100	N.A.	N.A.	N.A.	N.A.
Gross profit (loss) (LD)	(128,152)	(74,445)	(5,592)	(583,770)	(222,757)	N.A.	N.A.	N.A.	N.A.
Net profit (loss) (LD)	(237,994)	(187,412)	(510,189)	(644,593)	(249,565)	N.A.	N.A.	N.A.	N.A.
Profitability ratios:									
ROS	(0.399)	(0.436)	(0.677)	(4.889)	0	N.A.	N.A.	N.A.	N.A.
ROA	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Output: real sales (LD)	595,653	442,037	850,788	165,192	0	N.A.	N.A.	N.A.	N.A.
Output decline (% compared to 1999)		26	(43)	72	100	N.A.	N.A.	N.A.	N.A.
Efficiency ratios:									
SALEFF (LD/employee)	10,636	7,893	15,192	2,949	0	N.A.	N.A.	N.A.	N.A.
NIEFF (LD/employee)	(4,249)	(3,446)	(10,294)	(14,424)	(5,706)	N.A.	N.A.	N.A.	N.A.
Number of employees	56	56	56	56	56	56	54	24	N.A.

3.4 Al Mnsoura Condiment Factory (ACF)

This section deals with the privatisation of the Al Mnsoura Condiment Factory (ACF). This company did belong to the AFC group, but not to AFPC.

3.4.1 ACF background

The Al Mnsoura Condiment Factory (ACF) was one of the older food factories in Libya, dating back to 1960. It was founded by 120 local entrepreneurs as a private joint-venture company with capital of LD 1 million (about $819,721). ACF was initially located in Tripoli, but in 1964 it was shifted to Al azizya city. This is located in the Al sadyha region 34 km south of Tripoli. The company occupied a total land area of 30,000 m^2. In 1979, as a result of the nationalisation program, ACF was taken over by its workers. Since that time, it has been managed as a public firm administered by the Al Mamura Food Company (AFC), see section 3.1. Based on the availability of local raw materials such as cayenne pepper, tomatoes and olives, ACF processes seasonal products. These include canned chilli, olive, tomato paste, and Pickles. It has three production lines: a chilli production line (capacity of 4 ton/hr), a tomato paste production line (capacity of 4 ton/hr) and an olive production line (capacity of 4 ton/hr).

With regard to the market environment, there were a large number of domestic food factories throughout the country. These companies competed more with imports than with each other. Many of them were founded in the first wave of privatisation, and others followed in the second wave. The main customers of ACF were public supermarkets and organisations that were directed to purchase from ACF as part of the government program to regulate internal trade policies. In line with the government's policy to privatise the public sector, ACF was placed among the 360 public firms that should be privatised in 2003.

3.4.2 Situation before privatisation

This part covers the period before privatisation and describes the ownership, the structure, the management, the employees, and the incentive policies. It deals with the performance of ACF from 1999 to 2003. The aim is to explore the initial conditions that may have influenced the government decision to privatise ACF.

The performance of the SOE

Data were collected on profitability, output and operating efficiency. Table 3.12 provides an overview.

Table 3.12: Profit and loss data from ACF before privatisation

Measurement	1999*	2000	2001	2002	2003
Nominal sales (LD)	2,178,261	2,429,567	1,851,076	607,241	345
Sales decline (% compared to 1999)		(12)	15	72	100
Gross profit (loss) (LD)	1,009,569	1,625,585	(451,563)	52,377	(512,880)
Net profit (loss) (LD)	847,145	1,675,194	(695,933)	(109,032)	(534,515)
Profitability ratios:					
ROS	0.388	0.689	(0.375)	(0.179)	(1.549)
ROA	0.069	0.114	(0.053)	(0.008)	(0.045)
Output: real sales	2,178,261	2,502,128	2,091,612	760,953	441
Real sales decline (% compared to 1999)		(15)	4	65	100
Efficiency proxies:					
SALEFF (LD/employee)	28,661	32,922	27,521	10,012	5
NIEFF (LD/employee)	11,146	22,700	(10,346)	(1,797)	(9,005)
Number of employees	76	76	76	76	76

* The 1999 figures are taken as a baseline for the period before privatisation.

Profitability

Increased sales between 1999 and 2000 resulted in an increase in the net profit from LD 847,145 ($694.381) in 1999 to LD 1.6 million ($1.3 million) in 2000. In 2001 there were net losses of LD 695,933 ($570,436) and in 2002 and 2003 there were also losses. This was attributed to the drop in sales as well as to the high operation costs, the latter caused by the use of old machinery. Figure 3.27 provides a graphical representation of the net profit and losses.

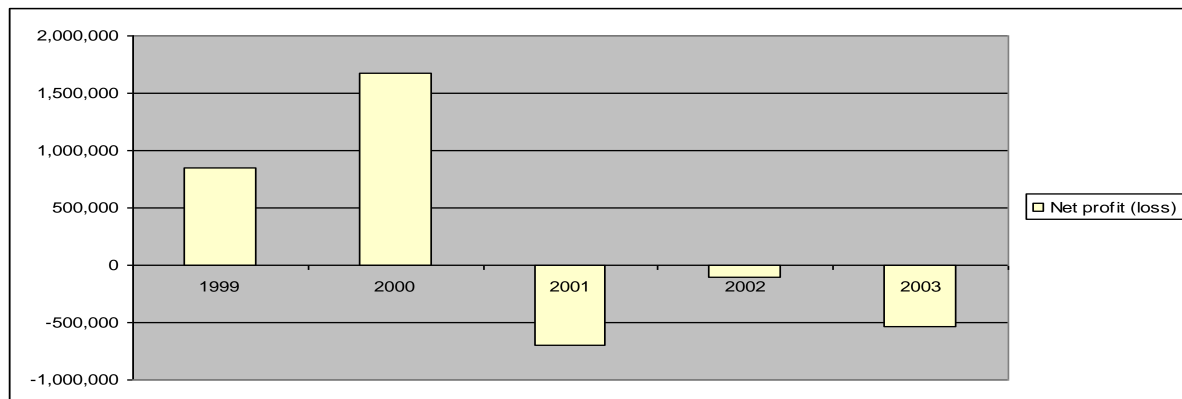


Figure 3.27: Net profits and losses at AFC before privatisation

The results of the profitability measurements reveal that return on sale (ROS) were 0.388 in 1999 and 0.689 in 2000. The return on assets (ROA) were 0.069 in 1999 and 0.114 in 2000. But they became negative from 2001 until 2003. Figure 3.28 shows the profitability ratios.

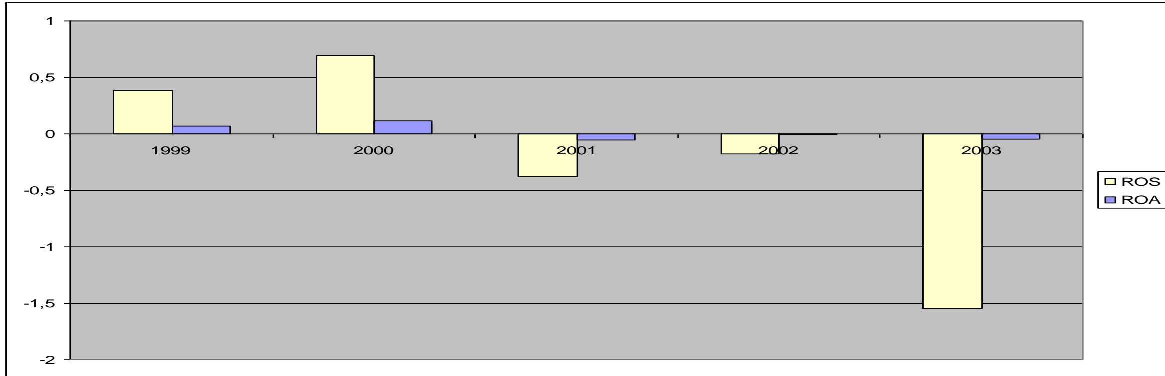


Figure 3.28: Profitability ratios: ROS & ROA at ACF before privatisation

Output

Figure 3.29 shows that the sales increased by 12 percent from LD 2.1 million ($1.7 million) in 1999 to LD 2.4 million ($1.9 million) in 2000. Since 2000 it has declined, and sales in 2003 at LD 345 ($273) were almost negligible.

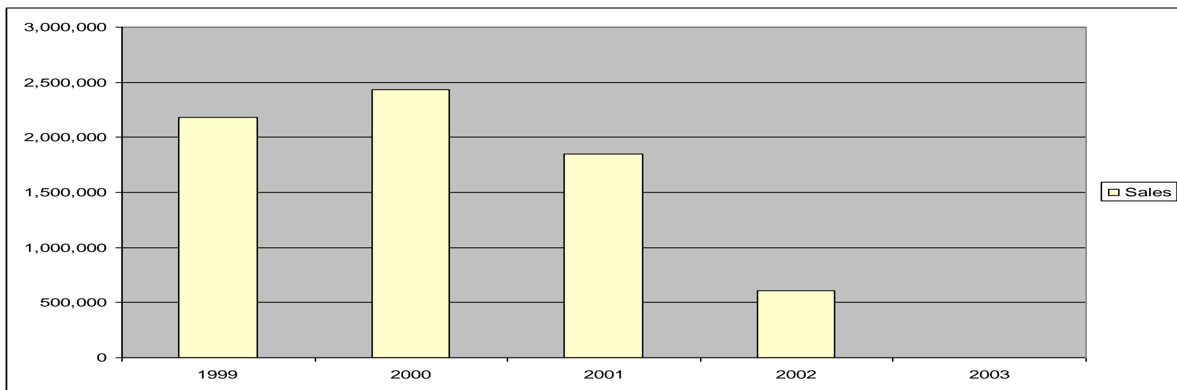


Figure 3.29: Nominal sales at ACF before privatisation

The drop in the sales was attributed to the growing competition from international competitors who had flooded the market with low price products relative to those of ACF. The data on the output in table 3.12 show that the real sales increased by 15 percent from LD 2.1 million ($1.7 million) in 1999 to LD 2.5 million ($2 million) in 2000. However, real sales dropped by 4 percent in 2001 compared with 1999. It reached LD 2 million ($1.6 million). Figure 3.30 shows that ACF experienced increased real sales from 1999 to 2000 but a decrease after those years.

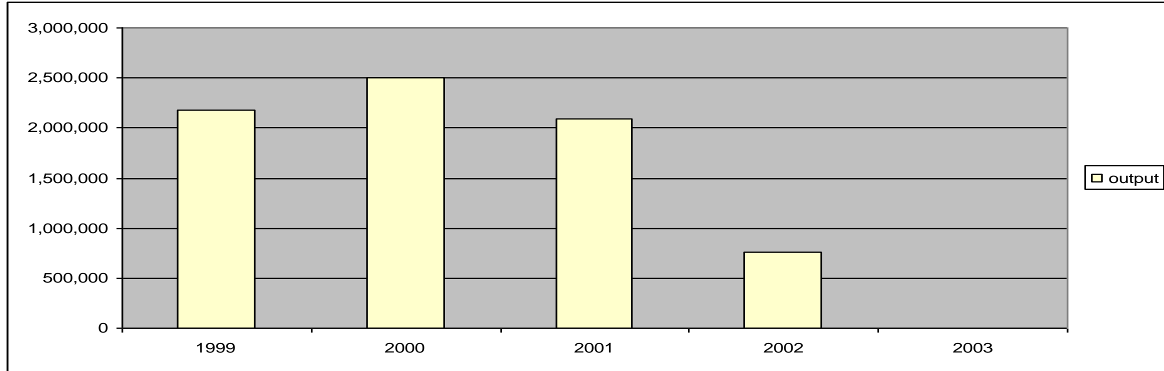


Figure 3.30: Output (real sales) at ACF before privatisation

Operating efficiency

The two efficiency proxies show that the sales efficiency (SALEFF) increased from LD 28,661 ($23,492) in 1999 to LD 32,922 ($26,985) in 2000. They declined after that to reach approximately zero in 2003. The net income efficiency (NIEFF) rose from LD 11,146 ($9,136) in 1999 to LD 22,700 ($18,606) in 2000. Since 2001, it has been negative. These results are presented in figure 3.31.

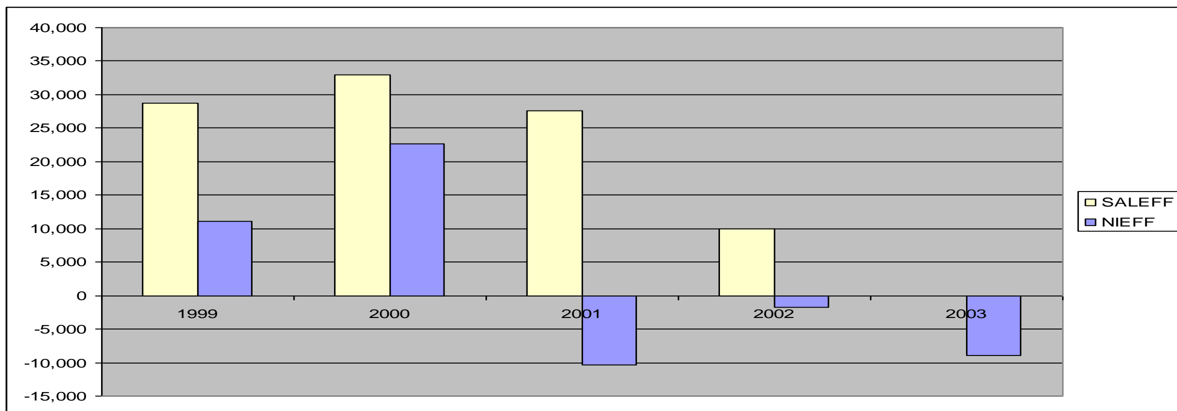


Figure 3.31: Efficiency proxies: SALEFF & NIEFF at ACF before privatisation

Organisational structure

ACF was part of the bankrupt AFC, see section 3.1.

The organisation chart

ACF's structure was approved by the ministry of industry on August 1993. It consisted of three management levels: people's committee of AFC (see section 3.1), three managing departments, and two operation sections (figure 3.32). ACF consisted of two sections. Each section was supervised by a section manager who was responsible for the coordination between units within his section. These sections were under the supervision of the general director who was responsible for the coordination between them. The general director was in turn accountable to AFC, which itself was accountable to the Ministry of Industry.

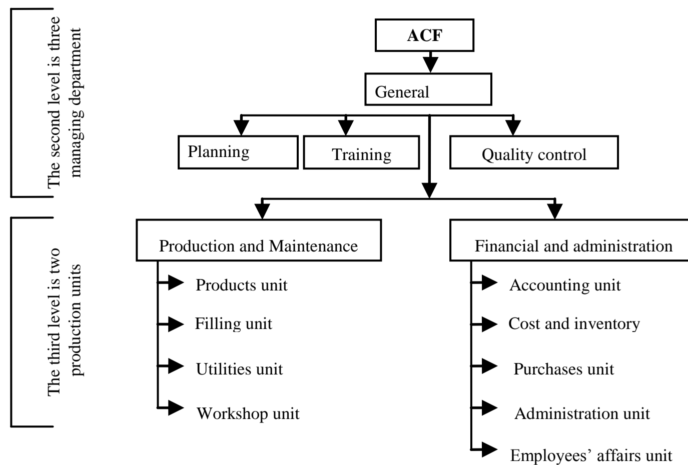


Figure 3.32: The organisational chart of ACF before the privatisation process

The production and maintenance section was divided into a production unit, a filling and packing unit, a utilities unit, and a workshop and maintenance unit. The finance and administration section, was divided into an accounting and a budget unit, a cost and inventory unit, a purchasing unit, an administration unit, and a unit of employees' affairs. Each unit of each section was headed by its own supervisor to monitor the day-to-day activities.

The management

The management of ACF consisted of the general director with managers in three functional areas. The general director had an advanced diploma of accounting and 21 years of work experience at ACF. He was elected by the employees and then approved by AFC. The general director was directly accountable to AFC about the general performance of ACF. He had the authority to supervise the day-to-day activities in the factory and was responsible for the coordination between the sections within ACF.

The manager of functional areas (production, and finance and administration) were selected by the general director and then appointed by AFC. The managers were required to submit monthly reports, on the basis of day-to-day activities, to the general director who in turn informed AFC by means of quarterly reports. The production manager, with an intermediate diploma of agriculture, was employed since 1983 by ACF. He has held this particular position since 1999. He monitors the production process, determines its allocations. The finance and administration manager, with an advanced diploma of accounting and 22 years of work experience, was appointed in 1998. He oversees the organisation of the office files, documents, equipment, budget, personnel, and other administrative functions. The quality control manager, with an intermediate diploma of agriculture, has worked at ACF since 1977. He was appointed as quality control manager in

1999 and is responsible for the quality inspection of the raw materials and finished products.

Employees

In 2001, ACF had 76 employees with lifetime contracts with employment grades ranging from third to thirteenth grade. It was estimated that about 75 percent of the employees had secondary-level education. The remaining 25 percent had higher and intermediate diplomas and university degrees. It is estimated that about 75 percent of the employees had appropriate skills to work at their level at ACF. In the 1980s they had undergone thorough job training offered by AFC. According to the managers, ACF was overstaffed by about 30 employees. This excess was a result of the government employment policy.

Incentive policies

Employees were paid a fixed monthly salary. This was determined by law no. 15/1981 which set the salary scale for public sector employees. Under this law, the basic salary of the employee was equal to the minimum wage multiplied by some standard allowances such as for housing and family. In addition, the employees received a performance-related bonus at the end of every year. This was a result of the take-over of the factory by the employees during the 1970s. The workers considered themselves as *partners not as wage-workers*. The average basic monthly salary was about LD 213 ($174) in 2001. Similar to the TCF and IFPF cases, the employees considered their salary very low compared to the rising costs of living. No substantive adjustment had been made to their salary since 1981. Although the top managers had some independence from AFC and were able to make some independent decisions concerning administration, maintenance, and quality and cost control, all strategic decisions concerning financial and marketing functions were concentrated at AFC as the central authority. The managers held the opinion that this structure delayed the process of decision-making, resulting from long chains of authority. Similar to the TCF and IFPF cases, employees of this company were also faced with irregular payment.

3.4.3 Feasibility study

The feasibility study is similar to what was worked out for TCF (section 3.2.3). The study recommended that ACF should be fully privatised to the domestic private sector, but that it should be restructured before its privatisation.

3.4.4 Process of privatisation

This section deals with the process of privatisation. It concentrates on firm-level activities that were conducted to privatise ACF. The section reviews the institutional activities, such as the market regulation, that surrounded the privatisation.

Initial firm valuation

According to resolution no. 100, GBOT was given permission to transfer the ownership of ACF to the private sector at a preliminary fixed price of LD 598,139 ($490,277). This sum reflected the value established of the fixed assets. This included buildings, machinery, transportation, equipment, and furniture. It excluded the value of the current assets such as raw materials, spare parts, finished products, cash, and liabilities. To execute this resolution, GBOT created a supervisory committee that consisted of a representative from AFC, ACF, the labour union, the municipality, and GBOT. The supervision committee monitored the process of privatisation within ACF. An establishment committee was created to assist GBOT in obtaining the final market value of ACF. It was chaired by the general director and had three other members. In addition, GBOT hired a legal editor for declaring and registering the newly privatised factory and to complete the preliminary articles of incorporation.

Preparation: market restructuring

Following the feasibility study, the government decreed a number of legislations in early 2003 concerning the economic reform in general and the privatisation program in particular. The process of market preparation has already been discussed in section 1.3.4.

Initial agreement and establishment of a new company

The establishment committee started by inviting the employees to a general meeting. In this meeting the initial market value of ACF was discussed along with a description of the details as outlined in the resolution. Employees were informed that several methods would be available to them in case they were interested in buying shares in their factory. This is similar to what was outlined in the previous case with TCF. All of the employees decided to participate in buying ACF. They were requested to establish a new company to take over ACF. The employees created a new company, named *Tashrukya* of Al Mnsoura Food Processing Factory, with cash reserves amounting to LD 15,000 ($12,295). This sum was the minimum amount of cash required to meet the government requirement for creating a small company.

Preparation: firm restructuring – organisational structure

Organisation chart

A new holding structure was created which reflected the ownership and the independent nature of the company (figure 3.33).

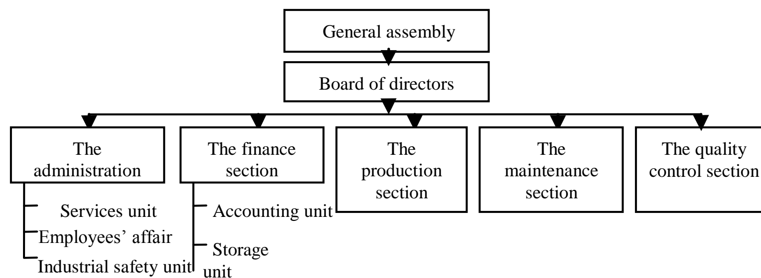


Figure 3.33: The organisational chart of ACF created during the privatisation process

The new structure was headed by the general assembly. The general assembly consisted of the president, vice-president, and all shareholders, who were owners of the factory and had the right to participate in its affairs. The board was elected by the general assembly, based on their qualifications and experiences. It ran the factory on the general assembly's behalf for a minimum period of four years. The board managed ACF on a day-to-day basis and reported to the general assembly about the general performance of the factory. The board was responsible for strategic decisions and submitted and defended the factory's policies and plans to the general assembly. Board meetings were held four times a year, but the frequency could be increased depending on need for that. The board consisted of a general director and two deputies. The task of the general director was to be the connection of the factory to the outside world. The deputies concentrated on internal day-to-day issues.

The former production and maintenance section was split into a production section and a maintenance section. The former finance and administration section was divided into a finance section and an administration section. The quality control section remained unchanged. In order to accomplish the functions of these sections more efficiently, each section consisted of several workers who were supervised by a single manager. The administration section was further subdivided into a services unit, a unit of employees' affairs, and an industrial safety unit. The finance section had two units: an accounting unit and a storage unit.

Management replacement

The board of directors was chaired by a manager, with an advanced diploma in agricultural studies, who also served as the president of the general assembly. He chaired the board meetings and represented the factory at outside meetings. The first member of the board was a manager who also served as the administration section manager. He had secondary-level education and 28 years of experience of working for ACF. He executed all managerial matters, including the organisation of office files, documents, and equipment. The second board member was a former finance manager who was once again in charge of the finance

section. His work involved monitoring financial and accounting activities. The executive managers were appointed by the board for a period of four years, and issues like experience and qualification were considered during the appointment process. They were required to carry out day-to-day activities within the factory and provide the board with a detailed explanation of matters falling under their control.
In addition to the two managers mentioned, there were three other managers. The production section was headed by a manager with secondary-level education who had been working in the factory since 1980. His main task was to supervise the workers during the production process and decide on the allocation of the production process. The maintenance section was headed by a manager, with an intermediate diploma of manufacturing studies, who had 20 years of experience working at the factory. He worked closely with his staff to check-out production lines and equipment regularly. The quality control section was headed by a manager, with a higher diploma in accounting, who had been working at the factory since 1999. He examined samples of both raw materials being received and finished products to be delivered in order to ensure their quality. Table 3.13 provides an overview.

Table 3.13: Management position changes at ACF

Position	Existing or new position	Change
General manager	Existing position	New person from IFPF
First manager deputy	New position	See administration manager
Second manager deputy	New position	See finance manager
Administration manager	Part of previous finance and administration section	New person from ACF
Finance manager	Part of previous finance and administration section	Same person
Production manager	Part of previous production and maintenance section	New person from ACF
Maintenance manager	Part of previous production and maintenance section	New person from ACF
Quality control manager	New position	New person from ACF

Employee reduction

Employment level remained stable at 76 employees during the privatisation process. As mentioned, all employees rejected the options that were offered for those who preferred to leave the factory.

Preparation: continued firm restructuring – financial

To move forward with *Tashrukya* of Al Mnsoura, the initial article of incorporation no. 33/72 was signed in December 2004 between a chairman of GBOT and the general director. It revealed that ACF was purchased by *Tashrukya* of Al Mnsoura for an initial price of LD 598,139 ($490,277). This excluded the value of land and was the same as the preliminary price. The establishment committee carried out stocktaking activities to assist GBOT in

obtaining the final market value of ACF.

Dealing with debt

The committee investigated the liabilities account to identify the financial obligations of ACF. It was determined that in December 2004, ACF was loaded with a total debt of LD 148,538 ($121,752) (table 3.14). These obligations were transferred to the DMF which settled them through negotiation with third parties.

Table 3.14: Debt of ACF as of 31/12/2004

	LD	US$
Unpaid purchases for maintenance	2,802	2,296
Taxes	62,031	50,845
Participation of the companies	11,475	9,405
Public treasury	2,762	2,266
Food products union	1,638	1,342
Joint liability fund	5,391	4,418
Social security fund	60,110	49,270
Instalment of a loan	1,290	1,057
Electricity company	1,039	851
Total	**148,538**	**121,752**

Source: Report of stocktaking activities at ACF.

To assess the benefits owed to the employees, their unpaid salary and compensation were determined. It was found that in December 2004, the employees were owed a total of LD 454,878 ($372,850) (table 3.15). These payments were transferred to the DMF so that the factory would be free from any duties towards the employees. The employees stated that they received their total unpaid payment.

Table 3.15: The outstanding payments for the employees at ACF on 31/12/2004

	LD	US$
Unpaid salaries	387,851	317,910
Compensations	61,049	50,040
Other payment	5,978	4,900
Total	**454,878**	**372,850**

Source: Report of stocktaking activities at ACF.

Asset auditing

The committee conducted a stocktaking exercise on the assets of ACF. The production lines and range of equipment were investigated, leading to the recording of information such as the type of machinery and the number of production lines. The buildings and utilities were also investigated by determining their floor space according to documents. Existing furniture and transportation were also investigated, resulting in reports about each of them. This investigation was only superficial. The exact situation on the shop floor was not investigated. It was observed that there were no activities undertaken to invest in

modernisation. This was because the government wanted to avoid any delay in the privatisation process.

Sale of the firm/change of ownership

Early in 2005, following these stocktaking activities, the record of delivery and receipt was signed between the former general director and a representative of ACF (the finance manager) with supervision by the establishment supervision committees. The final article of incorporation no. 22/73 was signed on March 2006. It reveals that the final market value of ACF was about LD 1 million ($819,672), excluding the value of the land. This was LD 401,861 ($329,394). more than the initially established value of the company, or about 67 percent more. This was because current assets were now included. Note that the debt was LD 603,416 ($494,603). The article also reveals that the total price was to be paid through five annual instalments from 2007 to 2011. Each instalment was about LD 200,000 ($163,934).

As in the previous two cases, the managers were very critical of the exclusion of the land from the transformation because it was perceived that it would be the main barrier to obtaining a business loan. The employees also argued that the market value of the factory was too high and did not reflect the real value of the assets. They stressed that the factory buildings were of low quality and that the production equipment was old.

3.4.5 Restructuring after privatisation

This section covers the period after privatisation from 2005 to 2007. The goal is to explore the changes in the structure and performance of ACF.

The new industry environment

Before privatisation, the production targets were fixed and were usually sold directly after they were produced. After privatisation, the managers had to provide the factory with input materials and actively look for sales in the market. The managers argued that the privatised ACF started its operation in a very difficult situation. It did not have any financial resources, it suffered from insufficient building quality and was equipped with old machinery. The managers were not empowered either to finance the normal factory operations or to invest in machinery, as land was normally required as a guarantee for a loan. Banks were unwilling to provide loans because the land was still state-owned.

In addition, ACF faced strong competition from international competitors, particularly from Tunisia and Algeria, who had at that time flooded the market with products. These products typically had a lower price because of their small packaging size relative to the products of ACF. The managers reacted to this by changing the size of the chilli can from 400g to 380g as well as changing the size and the way of packaging from 48 cans in carton, to 24 cans in nylon. They also introduced an easy to open can to satisfy customers' requests. The

managers reduced the price from LD 16.5 ($13.5) per box to LD 12.25 ($10.04) per box. This was partly possible due to a price decrease of cayenne pepper from LD 0.5 ($0.40) to LD 0.35 ($0.28) per kilo.

The managers also reacted to the growing competition by writing several reports to the government explaining their problems and asking it to support them with access to raw materials and by protecting their factory from foreign competitors. They did not get any response from the government on the reports and on the requests. The managers also searched for suppliers who were willing to provide input materials under delayed payment terms. They succeeded by obtaining four supply and delivery agreements with local investors. These investors agreed to provide ACF with input materials and receive finished products in return. The first agreement was signed with an investor who was interested in chilli products. The second and third agreements were signed with the Al-Andalus Company. This investor was interested in olive products. The fourth agreement was signed with an investor with an interest in tomato products.

Firm restructuring

Management replacement

In 2006, the former general director was replaced by a manager, with an intermediate diploma of agriculture. Before joining ACF, he worked for IFPF from 1983 to 1999, first as a production manager and then as the general director.

Employee reduction

The administration manager explained that after privatisation, the working contract was changed from a lifetime employee contract to annually renewable (by the board) contracts. This alteration in the terms of employment induced 38 employees to leave the factory voluntarily to join other government agencies. They believed that they could retain their secure lifelong employment by working at another state agency. The remaining 38 employees paid for the ownership stake of the 38 employees who left. After this, the level of employment remained stable at 38 employees who were also the owners of the factory.

Incentive policies

The factory changed the salary system from fixed wages to a performance-based salary. The net income was divided into three parts. One-third was classified as reserved for the salaries and was equally distributed among the employees. The second part of the net income was deposited into a collective account that could not be appropriated by the employees. The final part was retained and invested in a major capital account that was to be devoted to rejuvenating the factory. In this regard, the general director said that according to the decree of 2007, issued by the government, the factory has raised the salary of its employees to range between LD 300 ($245) and LD 600 ($491). The average salary was about LD 430 ($352) in 2007, more than the average salary of LD 213 ($ 174) in 2001.

The factory also came to an agreement of the power of decision-making. The board had the authority to formulate the strategic policies which established the structure and the functions of the factory. The general assembly had the authority to approve the strategic policies and business plans. The manager and workers could participate in major decisions by presenting their ideas about how activities should be organised and realised. They also expressed their opinions to supply the board with information on issues that were important to the functioning of the factory. According to the general director, the aim of the change in the salary system and in increasing employee participation in the decision-making was to create stronger incentives to find ways to improve the factory's performance.

3.4.6 Performance of privatised firm

An overview of the performance of ACF, profitability, output, and the operating is presented in table 3.16. In the previous cases, data for 2004 were also included to provide more insight, but were left out in the analysis because of the transition years. For ACF this could not be done because the data for 2004 were not available at the company.

Table 3.16: Profit and loss data from ACF after privatisation

Measurement	2004	2005*	2006	2007
Nominal sales (LD)	N.A.	497,874	1,487,192	1,081,222
Sales growth (% compared to 2005)	N.A.		199	117
Gross profit (loss) (LD)	N.A.	197,615	486,327	(16,252)
Net profit (loss) (LD)	N.A.	(43,008)	425,785	(85,159)
Profitability ratios:				
ROS	N.A.	(0.086)	0.286	(0.078)
ROA	N.A.	(0.020)	0.187	(0.043)
Output: real sales	N.A.	639,120	1,781,069	1,202,695
Real sales growth (% compared to 2005)	N.A.		179	88
Efficiency proxies:				
SALEFF (LD/employee)	N.A.	16,818	46,870	31,649
NIEFF (LD/employee)	N.A.	(1,452)	13,419	(2,492)
Number of employees	76	38	38	38

*The 2005 figures are taken as a baseline for the period after privatisation

Profitability

An increase in sales in 2006 led ACF to generate a net profit of LD 425,785 ($349,004), after the net loss of LD 43,008 ($35,252) in 2005. However, in 2007 there were losses again, this time of LD 85,159 ($69,802). This was attributed to the drop in sales in 2007 and the high operating costs due to the old machinery. This result, as present in figure 3.34, illustrates that ACF was losing money except in 2006.

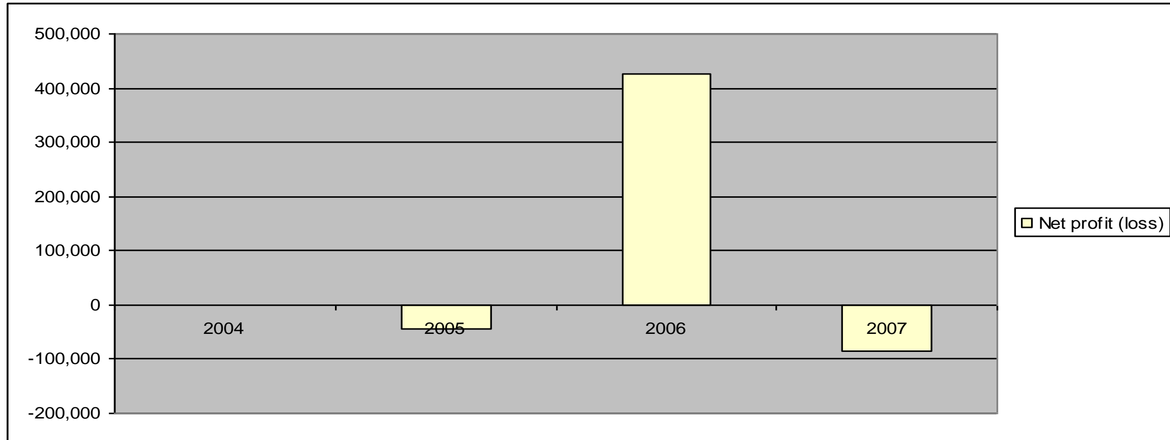


Figure 3.34: Net profits and losses at ACF after privatisation

Figure 3.35 illustrates the ROA and ROS after privatisation. The results of the profitability measurement show that in 2006 the return on sales (ROS) amounted to 0.286, whereas return on assets (ROA) was 0.187. They were both negative for the years 2005 and 2007.

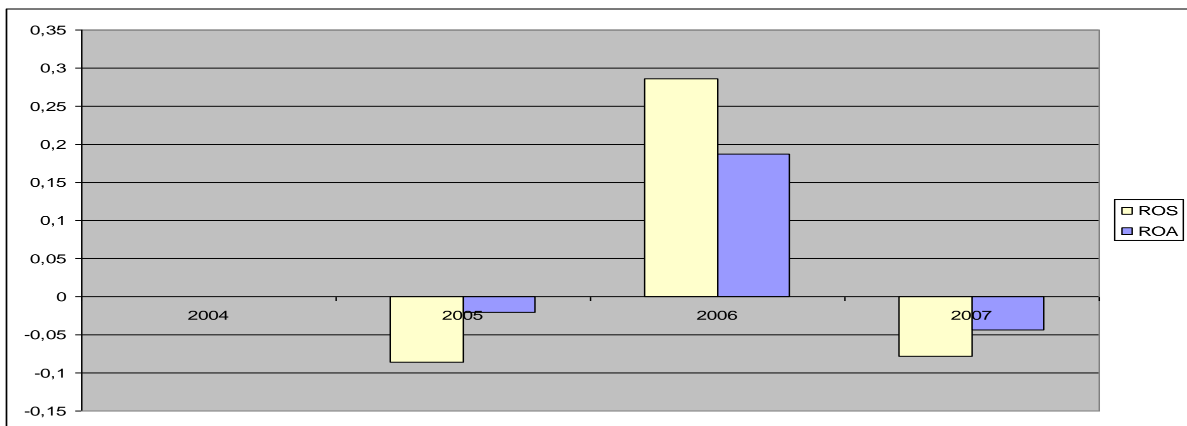


Figure 3.35: Profitability ratios: ROS & ROA at ACF after privatisation

A comparison of profits before and after the privatisation is shown in figure 3.36, while ROA and ROS are shown in figure 3.37.

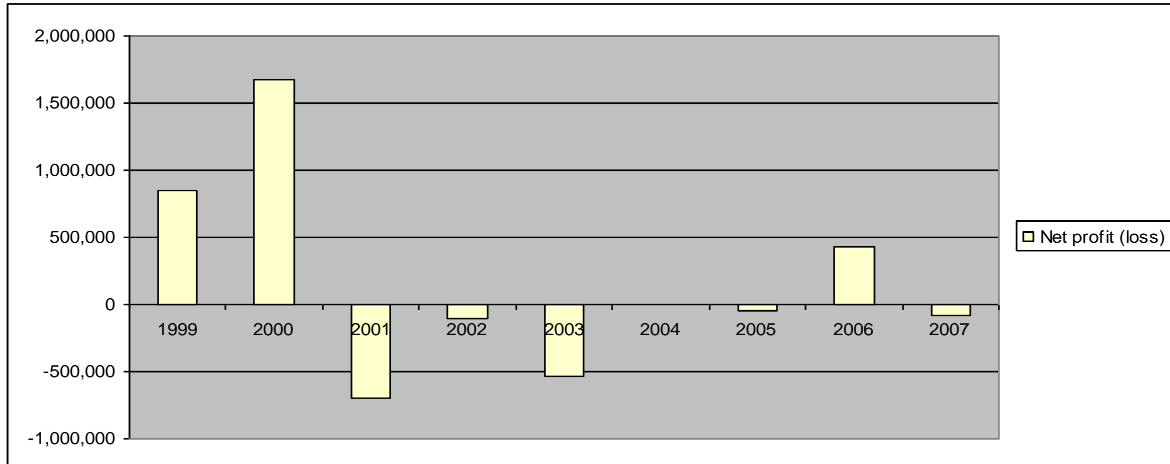


Figure 3.36: Net profits and losses at ACF before and after privatisation

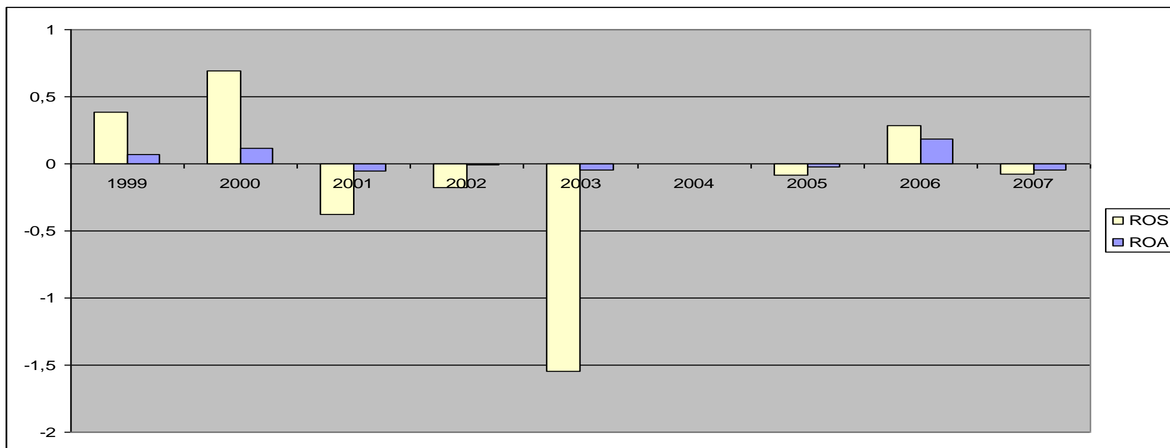


Figure 3.37: Profitability ratios: ROA & ROS at ACF before and after privatisation

The data show that ACF was a loss-maker over the three successive years of before privatisation. It was also loss-maker after privatisation, except for the year of 2006. However, the losses of after privatisation were less than those of before privatisation.

Output

Due to the supply and delivery agreements obtained with local investors, the sales figures increased by 199 percent from LD 497,874 ($408,093) in 2005 to LD 1.4 million ($1.1 million) in 2006. In 2007 it increased by 117 percent, compared with that of 2005, to reach LD 1 million ($819,672). Figure 3.38 provides an overview of the nominal sales at ACF.

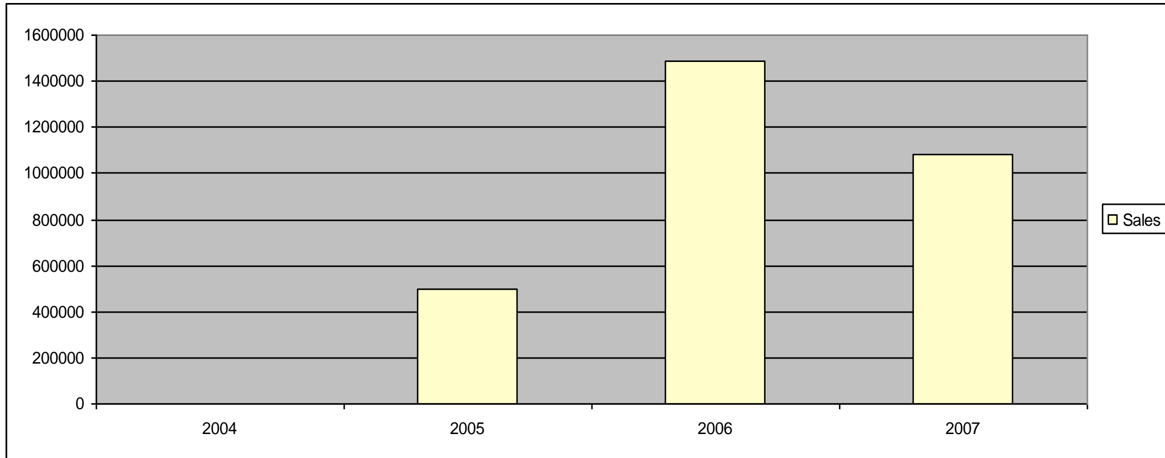


Figure 3.38: Nominal sales at ACF after privatisation

The figure illustrates that the sales increased substantive since 2005, but the sales in 2007 are less than those of 2006. This was explained as follows that also ACF faced strong competition from international competitors. They had come to the market with similar products but with a lower price than the ACF products.

The data on the output that are presented in table 3.14 show that the real sales increased by 179 percent from LD 639,120 ($523,868) in 2005 to LD 1.7 million ($1.3 million) in 2006. In 2007, it increased by 88 percent, compared to that of 2005, to reach LD 1.2 million ($983,606). However, the real sales dropped between 2006 and 2007.

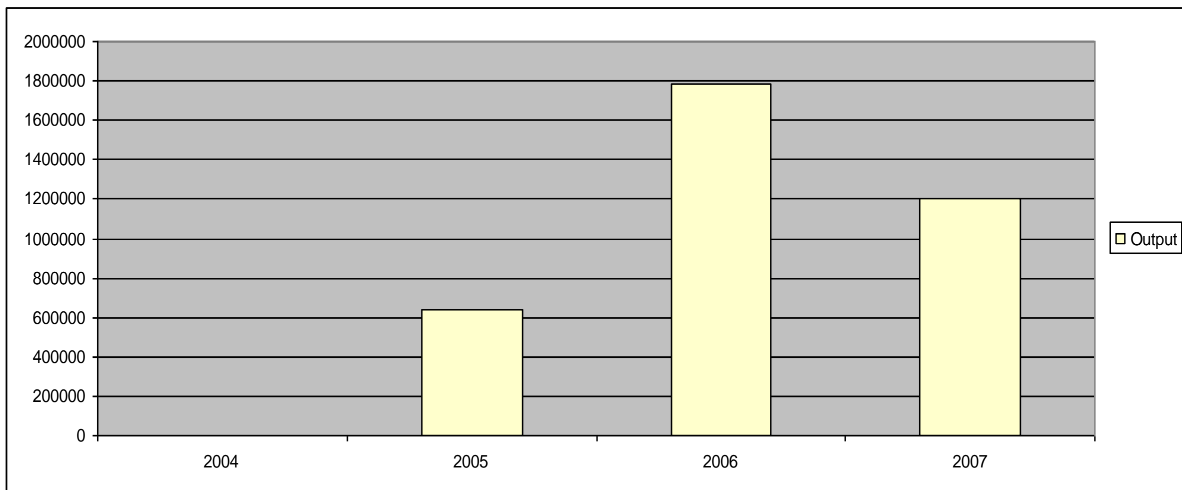


Figure 3.39: Output (real sales) at ACF after privatisation

Figures 3.40 and 3.41 provide a comparison of the nominal sales and the output (real sales), respectively, before and after privatisation.

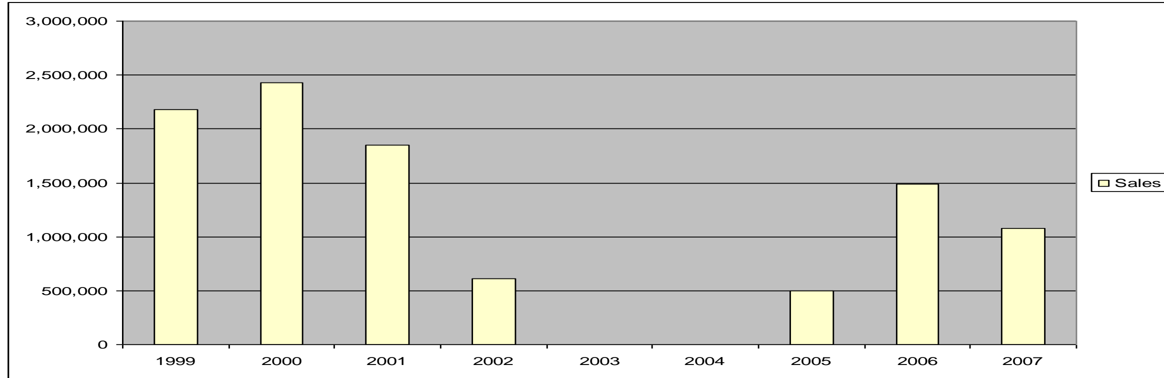


Figure 3.40: Nominal sales at ACF before and after privatisation

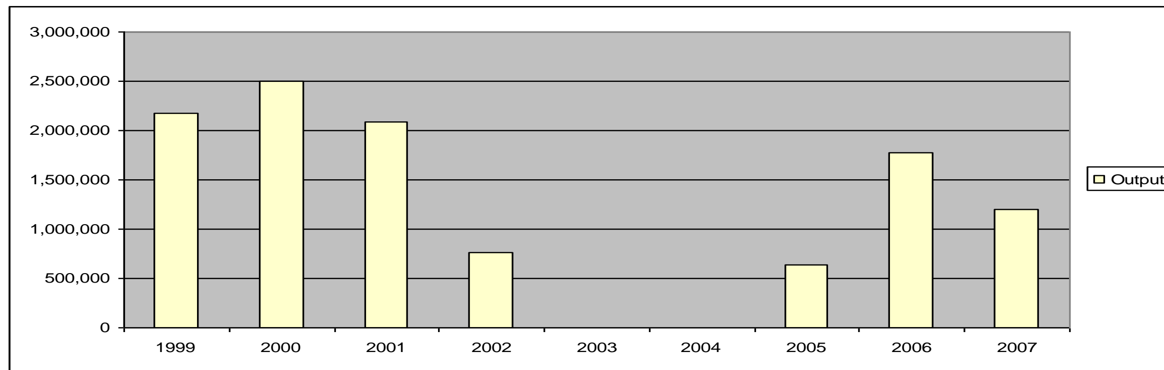


Figure 3.41: Output (real sales) at ACF before and after privatisation

The average nominal sales of after privatisation are higher by 25 percent than those of 2001 through 2003. It is improved from LD 819,554 ($671,765) over 2001 through 2003 to an average of LD 1,022,096 million ($837,783) over 2005 to 2007. Similar to the average nominal sales, the average real sales of after privatisation are also higher by 27 percent than those of 2001 through 2003. It is improved from LD 951,002 ($779,509) over 2001 through 2003 to an average of LD 1,207,628 million ($989,859) over 2005 to 2007, showing an increase in nominal and real sales after privatisation.

Operating efficiency

Measurement of the two efficiency proxies shows that the sales efficiency (SALEFF) increased from LD 16,818 ($13,785) in 2005 to LD 46,870 ($38,418) in 2006. In 2007, it reached LD 31,649 ($25,941). The same trend of profitability ratios applied to the net income efficiency (NIEFF), where it was negative, except for the year 2006. These results reveal that ACF had a negative NIEFF, except for the year 2006. It experienced an increase in the SALEFF of 133 percent on average, compared with 2005. But, as shown in figure 3.42, the SALEFF in 2007 was less than in 2006, see figure 3.4.2.

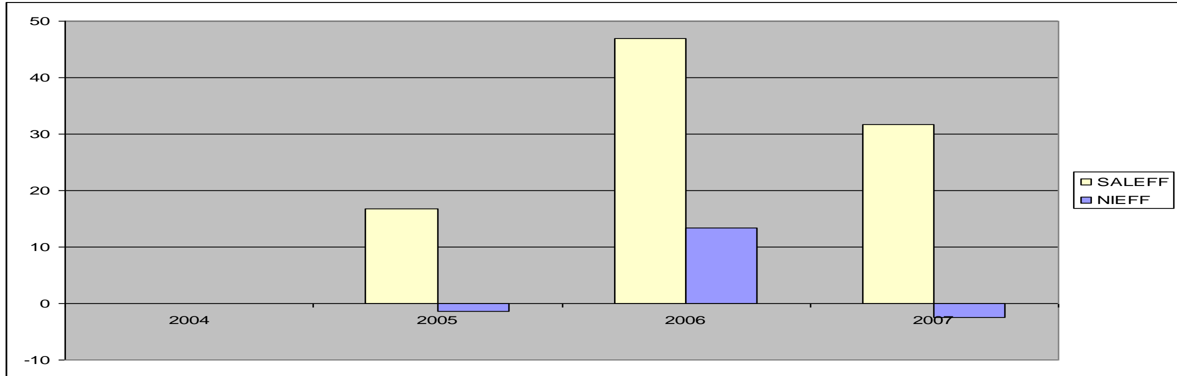


Figure 3.42: Efficiency proxies: SALEFF & NIEFF at ACF after privatisation

Figure 3.43 provides a comparison of the two efficiency proxies before and after the privatisation.

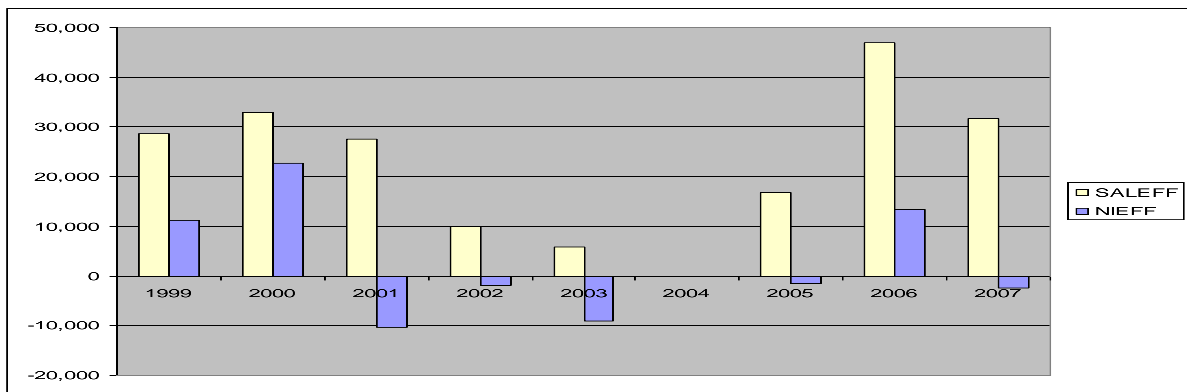


Figure 3.43: Efficiency proxies: SALEFF & NIEFF at ACF before and after privatisation

Figure 3.43 illustrates that the sales efficiency went up after privatisation compared to the situation before privatisation. The NIEFF fluctuated.

3.4.7 Conclusions

Privatisation process

The government hired an expert team to conduct a study of ACF in June 2002. The study found that ACF should be fully privatised to the domestic private sector but that it should be restructured before its privatisation. In April 2004, the employees created a new company. They adjusted the organisation, selected a board of directors, and hired executive managers. In December 2004 the initial sale was signed. After this, in order to determine the final market value of ACF, several stocktaking activities were conducted. They dealt with debts and assets auditing. The final sale was signed in March 2006. After this, the employee contracts were renegotiated from lifetime to annual employment contracts. This alteration caused 38 employees to leave the factory. To improve the attitude of the employees, they were given more independence in everyday decision-making. Furthermore,

the net income was also divided into three parts, a salary account, a collective account, and the major capital account.
With regard to the process of privatisation, similar conclusions as from the first case can be drawn compared to the conceptual framework that was developed in chapter 2. See chapter 3, therefore, for more detailed information related to the conceptual framework.

Performance comparison

With respect to the performance, ACF experienced an increase in the sales, output, and sales efficiency, but losses occurred except for 2006. This attributed to high operating expenses caused by old machinery. Due to the exclusion of the land from the contract, the company was unable to raise enough capital. Lastly, the employee buyouts created a situation where control remained with insiders, but they had a lack of marketing skills. Overall, table 3.17 shows that the performance conclusions are straightforward. Performance was fluctuating before privatisation occurred, but after privatisation there was a slight improvement in the sales, profit, output, and sale efficiency, but there is still losses. One of the main conclusion is that there was an improvement in most of the performance measurements, but not significantly compared with the three successive years of before privatisation. It should be noted however, that the companies were before privatisation were strongly influenced by a disastrous 2003. The improved situation after 2004 could be attributed to special market efforts, combined with a smaller employment base.

Realisation of objectives

With regard to meeting the objectives, similar observations can be made as for the first case, see section 3.2.7. The difference is that the sales, profit, output, and sale efficiency are improved after privatisation. Still it remained a loss-making factory. Another difference was that the excess employee situation was better handled at ACF, i.e. more employees left. As, prior to privatisation it was estimated that the company was overstaffed by about 30 people, and as a result of the privatisation more than 30 people left the firm.

Table 3.17: Overview of performance comparison at ACF

Measurement	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Nominal sales (LD)	2,178,261	2,429,567	1,851,076	607,241	345	N.A.	497,874	1,487,192	1,081,222
Sales decline (% compared to 1999/ 2005)		(12)	15	72	100	N.A.		199	117
Gross profit (loss) (LD)	1,009,569	1,625,585	(451,563)	52,377	(512,880)	N.A.	197,615	486,327	(16,252)
Net profit (loss) (LD)	847,145	1,675,194	(695,933)	(109,032)	(534,515)	N.A.	(43,008)	425,785	(85,159)
Profitability ratios:									
ROS	0.388	0.689	(0.375)	(0.179)	(1.549)	N.A.	(0.086)	0.286	(0.078)
ROA	0.069	0.114	(0.053)	(0.008)	(0.045)	N.A.	(0.020)	0.187	(0.043)
Output: real sales (LD)	2,178,261	2,502,128	2,091,612	760,953	441	N.A.	639,120	1,781,069	1,202,695
Output decline (% compared to 1999/ 2005)		(15)	4	65	100	N.A.		179	88
Efficiency ratios:									
SALEFF (LD/employee)	28,661	32,922	27,521	10,012	5	N.A.	16,818	46,870	31,649
NIEFF (LD/employee	11,146	22,700	(10,346)	(1,797)	(9,005)	N.A.	(1,452)	13,419	(2,492)
Number of employees	76	76	76	76	76	76	38	38	38

3.5 Furniture Factory, Misuratah (FFM)

This section deals with the privatisation of the Furniture Factory, Misuratah (FFM).

3.5.1 FFM background

The Furniture Factory, Misuratah (FFM) was established in October 1994 with a starting capital of LD 4.5 million ($3.6 million). It officially commenced business a year later in September 1995. FFM is specialised in manufacturing a variety of types of furniture including living room furniture, bedroom furniture, and institutional furniture.

FFM was founded by the Furniture Public Company (FPC). FPC was one of the largest public companies involved in manufacturing and marketing furniture in Libya. FPC was established by the GP Committee, law no. 80/1976, as a joint venture company with a capital of LD 2 million ($1.6 million). This capital was gradually increased to LD 6 million ($4.9 million) in 2001. FPC manufactures and markets household and institutional furniture. In addition to FFM, FPC had four other factories: Al Sawani, Benghazi, Darnah, and the Al Jabal Al Akhdar factory. It also had four sales offices in Tripoli, Misuratah, Bengazi, and Derna. In April 2001, FPC had a total of 1900 employees for its five factories. FPC was run by a people's committee that was appointed by the Ministry of Industry to supervise activities in all factories. The committee was also in charge of drafting the general policies and reporting to the Ministry of Industry for approval of them.

The FFM factory had a total land area of 30,500 m^2 and was located in Misuratah city, 200 km east of Tripoli. 25 Italian machines were imported early in 1994 for production. These machines together formed a complete production line. The annual production capacity was initially 400,000 m^3 of wood. The production process used raw material which was purchased from sources outside of Libya. This included wooden flats, fittings, operating appliances, instruments and semi-manufactured materials. Despite the growing competition in the furniture industry, particularly from international competitors who gained a significant market share, FFM retained a large share of the domestic market. In 2003 FFM was placed on the list of 360 public firms in line with the government's policy to privatise the public sector.

3.5.2 Situation before privatisation

This section explores the initial conditions that may have influenced the government to privatise FFM.

The performance of the SOE

Assessments were made of the profitability, the output, and the operating efficiency of FFM's is presented in table 3.18.

Table 3.18: Profit and loss data from FFM before privatisation

Measurement	1999*	2000	2001	2002	2003
Nominal sales (LD)	5,857,403	2,908,465	2,124,797	121,887	2,231,413
Sales decline (% compared to 1999)		50	64	98	62
Gross profit (loss) (LD)	460,437	239,350	151,325	110,588	240,170
Net profit (loss) (LD)	349,940	147,331	29,229	(72,513)	(753,274)
Profitability ratios:					
ROS	0.059	0.050	0.013	(0.594)	(0.337)
ROA	0.056	0.021	0.003	(0.015)	(0.113)
Output: real sales	5,857,404	2,995,330	2,400,901	152,740	2,857,122
Real sales decline (% compared to 1999)		49	59	97	51
Efficiency proxies:					
SALEFF (LD/employee)	31,156	15,932	15,692	1,107	23,613
NIEFF (LD/employee)	1,861	807	215	(658)	(7,971)
Number of employees	188	188	153	138	121

*The 1999 figures are taken as a baseline for the period before privatisation.

Profitability

In 1999, FFM generated net profits of LD 349,940 ($286,836), which in 2001 declined to LD 29,229 ($23,958). In 2002 a small loss was generated, which in 2003 increased to LD 753,274 ($617,437), see figure 3.44. The net results declined steadily over the five successive years before privatisation. This was attributed to a drop in sales while the operating costs remained stable.

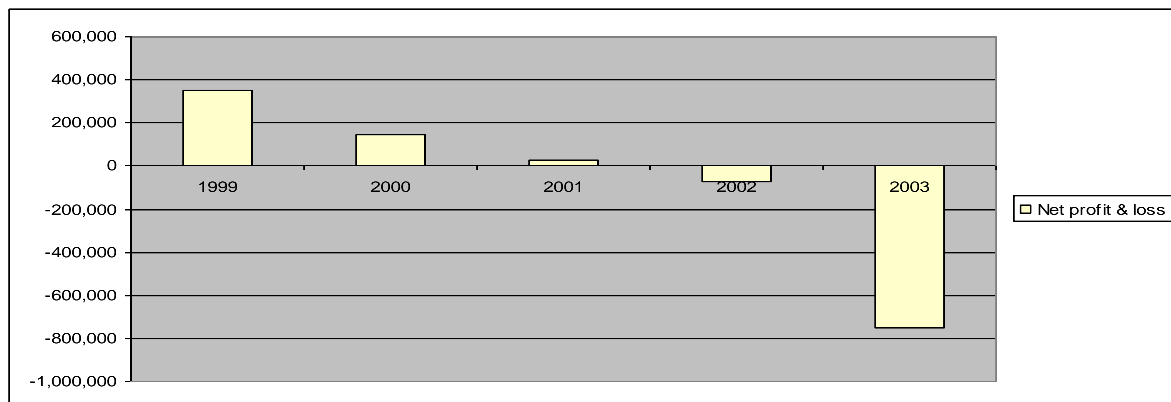


Figure 3.44: Net profits and losses at FFM before privatisation

The results of the profitability measures show that the return on sales (ROS) declined from 0.059 in 1999 to -0.337 in 2003. The return on assets (ROA) also declined from 0.056 in 1999 to -0.113 in 2003, see figure 3.45.

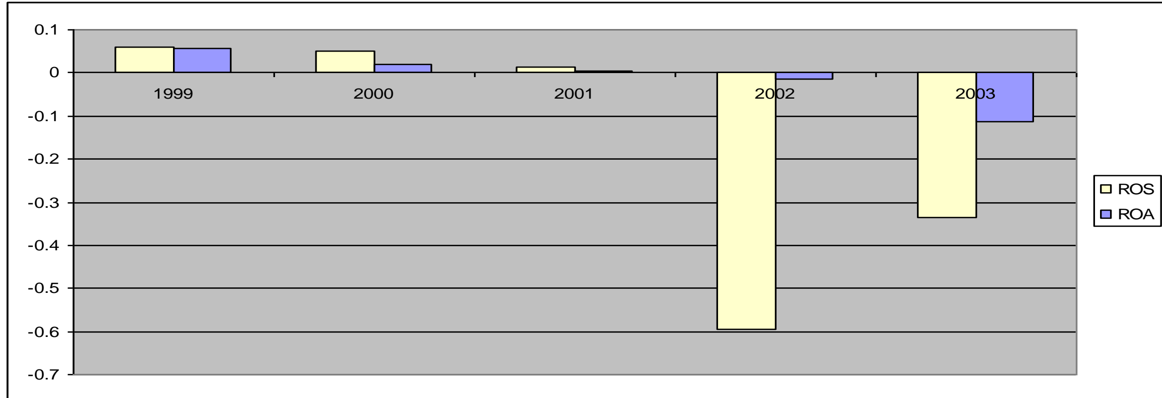


Figure 3.45: Profitability ratios: ROS & ROA at FFM before privatisation

Output

In 1999, sales reached LD 5.8 million ($4.7 million). In 2000 they dropped by 50 percent to LD 2.9 million ($2.3 million), and in 2001 they fell even further to reach LD 2.1 million ($1.7 million). This is a drop of 64 percent compared with 1999. Sales kept declining until 2002 when they reached LD 121,887. In 2003 it rose again to LD 2,231,413. This trend is presented in figure 3.46 which shows a drop in sales of 68 percent on average over the five years from 1999 to 2003.

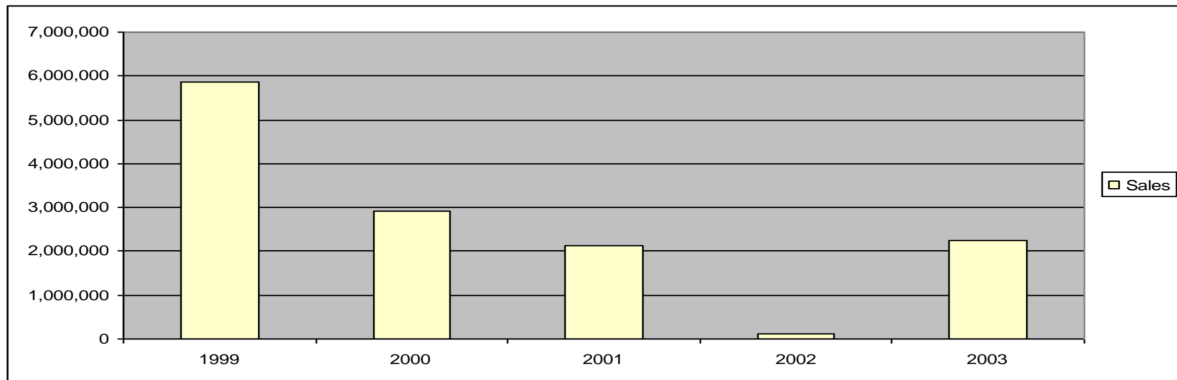


Figure 3.46: Nominal sales at FFM before privatisation

The drop in sales was attributed by the increase in small local companies that dominated a significant market share.

The output (real sales) decreased by 49 percent from LD 5.8 million ($4.7 million) in 1999 to LD 152,740 in 2002. After that it increased to LD 2,857,122 in 2003. From 1999 to 2003 it dropped by 51 percent.

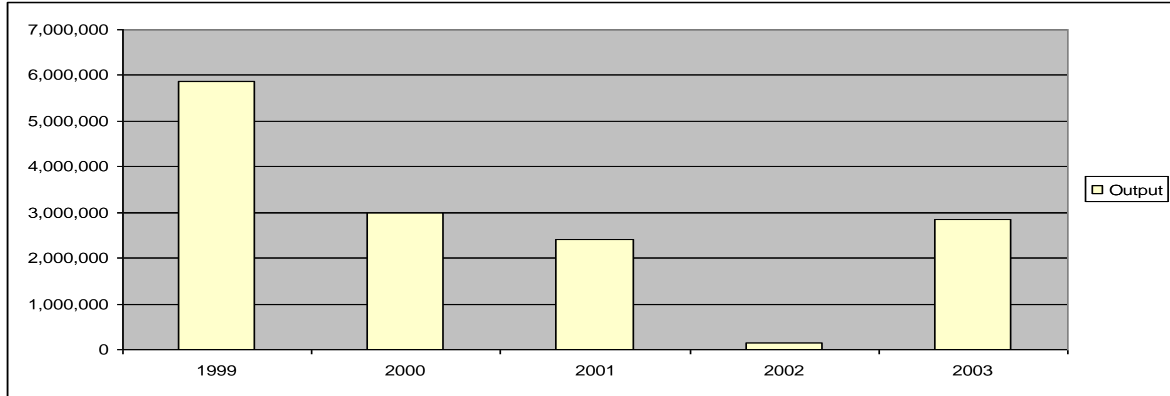


Figure 3.47: Output (real sales) at FFM before privatisation

FFM experienced a 64 percent output drop from the 1999 to 2003.

Operating efficiency

The efficiency proxies show that the sale efficiency (SALEFF) declined from LD 31,156 ($25,537) in 1999 to LD 1,107 in 2002, then it improved again to LD 23,613 in 2003. The net income efficiency (NIEFF) also declined. It went from LD 1,861 in 1999 to LD 807 in 2000. It then declined further to negative numbers, ending with negative LD 7,971 in 2003, see figure 3.48.

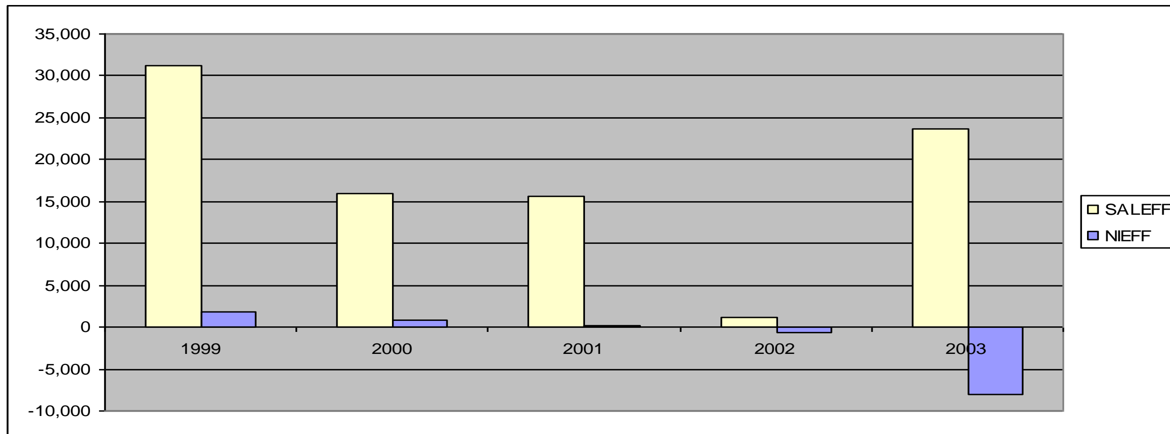


Figure 3.48: Efficiency proxies: SALEFF & NIEFF at FFM before privatisation

Organisational structure

The organisational chart

As part of FPC FFM consisted of five functional sections that were created to carry out operating activities of the factory. These sections were under the supervision of the general director, who worked under the direction of FPC. FPC was accountable again to the Ministry of Industry. In addition to these five sections, FFM had an information office, a labour affairs unit, and an industrial safety unit. These units serve as liaisons between the general director and executive managers. FFM had an internal supervisor who acted

independently of the general director and was directly responsible to FPC.

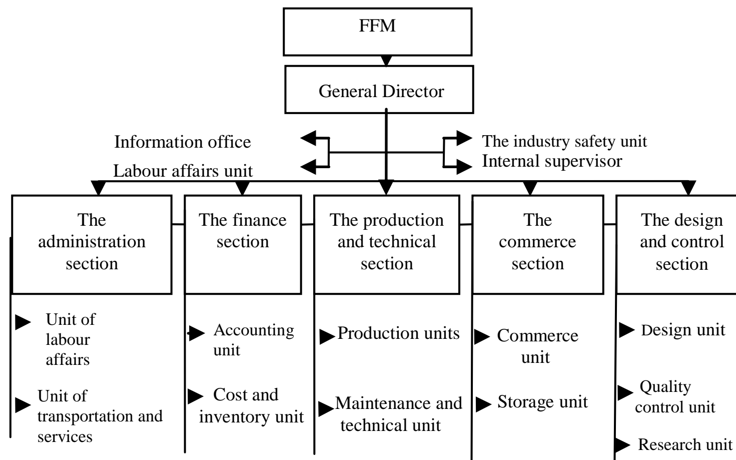


Figure 3.49: The organisation chart of FFM before the privatisation process

The administration section was responsible for all administrative activities, comprised of a unit of labour affairs and a unit of transportation and services. The finance section was responsible for financial and accounting activities and consisted of an accounting unit and a unit for cost calculation and inventory management. The production and technical section consisted of a production unit and a maintenance and technical unit. The commerce section dealt with sales and marketing issues and consisted of a commerce unit and a storage unit. The design and control section dealt with quality control activities and consisted of a design unit, a quality control unit, and a research and development unit.

This structure set-up experienced long and complicated bureaucratic procedures, especially with issues concerning finances and the importing of raw materials. They were required to prepare reports about production allocations and send them to FPC for approval. Changes were often made before the final approval. After approval, FPC was required to open a foreign currency account. This was a very complex and time-consuming procedure. As a result, it quite frequently happened that the ordered materials arrived later than the scheduled dates.

The management

FFM was managed by the general director who had a bachelor of electronic engineering degree and had been working at the factory since 1994. The general director was generally responsible for decision-making, but major issues had to be submitted to FPC. The internal supervisor, with an intermediate diploma of manufacturing studies, was appointed by FPC to report directly to the supervisory board. He was in charge of internal audits, verifying the accuracy of records, documents and authorisation. The five section or executive managers were hired by the general director to carry out operational activities and to report to him regularly. The general director in turn put these reports together and sent them to FPC.

The administration manager, with a university degree, had been working at this position since 2001. He was responsible for all administrative aspects, including overseeing the organisation of the office files, documents, and equipment. A finance manager, with a background in accounting and 15 years of working experience, monitored the system of financial and accounting management and prepared the factory's annual budget. The production manager also had an intermediate diploma of manufacturing studies and had been working with FFM since 1994. He determined the day-to-day allocations of the production process and coordinated the receipt of raw materials and delivery of the finished products. The commerce manager, with an intermediate diploma of manufacturing studies, had been working with FFM since 1994. He directed and coordinated the marketing activities and policies to promote products and services. He worked with advertising and promotion managers. Lastly, the design and control manager, with a vocational education, had been working in FFM since 1998, responsible for checking equipment to ensure conformity with specifications. In the manufacturing process he was involved in the quality control, and for quality improvements in the production process of the products.

Employees

FFM employed a total of 188 people in 1999. According to the employees, the factory had always paid a low salary. For mainly this reason, 35 employees had left FFM to find better-paying jobs in private firms. Private firms had been growing rapidly in that period. The total number of employees therefore dropped to 153 in 2001. About 120 of them had been hired with lifetime employment contracts. The remaining 33 were hired on the basis of a personal contract, renewable annually by the general director. About 10 percent of the employees held advanced diploma of manufacturing studies and university degrees, 31 percent had an intermediate diploma of manufacturing, and the remaining 49 percent had vocational, secondary, and primary education.

Incentive policies

The employees were paid according to law no. 15/1981 which determined the salary level for public sector employees. The basic salary of the employee was equal to the minimum wage multiplied by some standard allowance (such as for housing and family). The average basic monthly salary in 2001 was LD 250 ($204). There had been no adjustment to the salary system since 1981. The employees expressed considerable dissatisfaction with this salary because it was considered very low compared to the rising costs of living. Although the managers had some autonomy in making decisions concerning administration, maintenance, and quality and cost control, all financial and marketing decisions were administered by FPC.

FPC was also responsible for input and output decisions. FFM managers had the right to negotiate about the production targets, but the final decisions were usually made by FPC.

3.5.3 Feasibility study

In early 2002, the public planning council hired an expert team of 10 members from the Centre of Economic Studies. This team was given the task of conducting a study. FPC, including its five factories. The study investigated the fiscal, administrative, commercial and technical conditions of FPC from 1996 until 2000. The aim was to determine whether FPC should continue as a public company or whether it should be privatised. Similar to the previous cases, the study did not reveal the results of FFM separately. Information from the five factories was compiled together and presented as a single company, i.e. FPC. This made it difficult to obtain specific data on FFM for this study.

The study concluded that FPC, including its five factories, was among the healthiest public companies. One indicator of the financial health of FPC was that it was almost debt-free. In 2000, sales reached LD 28.7 million ($23.52 million), and the profit was LD 4.6 million ($3.7 million). It was, however, estimated that FPC suffered from an excess of 280 employees.

The team recommended that, as a short-term objective, it would be best for FPC to be divided into five independent public factories. These were the FFM, Al Sawani, Benghazi, Darnah, and Al Jabal Al Akhdar factories. The idea was that these factories should be administered by their municipal authority in order to decentralise the decision-making process. As a complementary long-term objective, it was argued that it would be best if the five factories were to be offered for full or partial privatisation through public share offerings (*Sharika Musahima system*) because they were characterised as medium-sized firms and for that reason too large for the employees to buy. The study was followed by resolution no. 72 of 2002, which transferred FPC from the central government (the Ministry of Industry) to the local government (Municipal Authority).

3.5.4 Process of privatisation

This section concentrates on firm-level activities that were conducted to privatise FFM. The section examines the institutional activities, such as market regulations.

According to resolution no. 100, the GBOT was given permission to transfer the ownership of FFM from the public to the private sector. The GBOT created an establishment committee which was chaired by the general director with four members. The committee was asked to establish a new company to take over FFM. The GBOT also hired a legal editor to declare and register a new privatised factory and complete the preliminary article of incorporation. It also created a supervisory committee to monitor the declaration and the registration of the new privatised company. It consisted of representatives of the GBOT, the municipality, the labour union, FPC, and of FFM.

Preparation: firm restructuring – financial

The GBOT appointed the Alnahda consultant office to prepare and value FFM for privatisation.

Dealing with debt

The team investigated the liabilities account to identify all of the financial obligations that were held by FFM. It was assessed that in April 2002 FFM had a total debt of LD 215,077 ($176,292) (table 3.19). This debit was transferred to the DMF. They settled it through negotiation with third parties.

Table 3.19: Debt of FFM as of 30/04/2002

	LD	US$
Taxes	2,944	2,413
Social security fund	4,476	3,668
Participations	1,402	1,149
Public treasury	511	418
Deposits	4,405	3,610
Outstanding expenses	5,558	4,555
Unpaid net wages	17,844	14,626
Allocations	177,937	145,850
Total	**215,077**	**176,292**

Source: Final report of FFM evaluation.

To determine the outstanding payments due to employees, the team calculated unpaid salary and compensations. It was established that on June 2002 the outstanding payment to employees was LD 63,000 ($51,639). These payments were also transferred to the DMF to distribute as back pay to the employees. To assess the status of employment, the team summarised the appointment date, the job title occupied, experiences, and the qualification of the employees. On the basis of this information, it was concluded that FFM had an excess of 31 employees.

Asset auditing

The team reviewed a wide variety of relevant documents including maps of constructions and utilities as well as manuals of operations and maintenance to establish the technical condition and level of usefulness of the assets. It was recommended that LD 129,000 ($105,737) should be allocated for building maintenance. It was estimated that the remaining life expectancy of machinery and equipment was about six years. The inventory was in good condition, this included spare parts, finished products, and work in progress. No plans or activities were undertaken to make new investments in technology because the government aimed to avoid any issues that could possibly delay the process. A restricted stocktaking exercise that would help to obtain the market value of FFM was carried out.

Preparations

Market restructuring

Following the restructuring of FFM, the government issued a number of legislations in early 2003 concerning economic reform in general and the privatisation in particular. The description of the market preparation has been provided in section 1.3.4.

Continued firm restructuring – organisational structure

The establishment committee started by inviting the employees to a general meeting. At this meeting the employees were informed that in case they were interested in buying shares in FFM, several methods would be available to them. These methods were similar to those outlined in the previous case with TCF. Of a total of 153 employees, only 73 decided to invest in FFM. The rest decided to leave to join other state agencies. Those who were interested in buying shares in FFM were required in cooperation with legal editor to create a new company to take-over FFM. The new company was created as follows:

Organisation chart

The general director, in collaboration with four other managers, established a new company under the trade name of Al Sendyan for Furniture and Wood Industry (AFWI). It had a structure that was very similar to the former structure. The only difference was the creation of a general assembly, a board of directors, and a legal consultant. In this structure the general director was the supreme management authority. This reflected the ownership and independent nature of the factory. It consisted of the president, vice-president, and all shareholders as owners of the factory with the right to participate in their factory affairs.
The position of the general director was replaced by the board of directors. It consisted of a general director and four deputy managers. The former production section was restructured by separating the maintenance and technical unit into a unit of maintenance and a unit of technical affairs. According to the general director, each of the five sections was given sufficient authority and responsibility/oversight of the way in which tasks were carried out. This, he felt, simplified the management process and significantly lowered the administrative costs.

Management replacement

There was no activity carried out to replace top managers as part of FFM restructuring prior to its privatisation.

Employee reduction

Based on the options that were offered to the employees who were not interested in buying shares in FFM, 80 employees had left FFM to join the education and security sectors. The administration manager explained that departing employees left voluntarily because they had no desire to buy shares in FFM and/or because they hoped to get a job elsewhere with a higher salary. This means that the new company was created with originally 73 employees.

Sale of the firm/change of ownership

To determine the value of FFM, initially the net book value was used, which was LD4.7 million, and it was decided that this value would be discounted by 40 percent, leading to the final sales value of LD 2.8 million. This was a to high price to be paid only by the employees. Therefore, the government announced a public invitation to sell part of the company to domestic investors. This generated LD 705,000 ($577,868) as cash for establishing a joint venture company, *Sharika Musahima.* The stock was divided into 23,500 shares; with a nominal value of LD 30 ($25) each. Seventy percent of the stock was owned by outside investors, and 30 percent was owned by the employees[4].

To move the process forward, the initial article of incorporation no. 36/72 was signed in December 2004 between the chairman of GBOT and the general director. It reveals that FFM was purchased by Al Sendyan for Furniture and Wood Industry (AFWI) for LD 2,820,302 ($2,311,722), excluding the value of the land. The article also reveals that the total sale value was to be paid off through five-annual instalments, from September 2006 to March 2010. About LD 564,060 ($462,344) was determined to be the required amount for each instalment.

The final article of incorporation, which was supposed to be signed in 2005, was rejected by the owners and the managers. They argued that there were many discussions still going on with the GBOT about several resolutions. This included the exclusion of the land, the market value of FMF, and the number of instalments.

3.5.5 Restructuring after privatisation

The new industry environment

Following the privatisation decision, the factory was purchased by Al Sendyan for Furniture and Wood Industry, which was created by 614 shareholders including ultimately 63 employees and 551 domestic investors. The managers estimated that the employees owned about 30 percent of the total shares, while the rest was owned by the outside domestic inventors. The factory was well-known in the domestic market for its competitive

[4] As the company suffered from lack of cash, the new owners agreed to use the LD 705,000 as working capital to ensure continued operations. The plan was to use the profits in the future to generate cash for the five payments to be made.

quality products. A strong reputation and a substantial market presence in Libya explained why a large number of investors were interested in buying shares in this factory. But after privatisation, also FFM faced strong competition from products imported from abroad. The market was entered with products from Egypt, Turkey, and China. These products had a low price/quality ratio relative to FFM and West European products. Other importers had maintained market share by importing high-quality products from Western Europe. There were also many small local, private businesses that further weakened demand for FFM products.

The managers responded to this increased competition with policies of seeking new distributors, who would cooperate in marketing their products, to ensure a wide distribution of the factory's products throughout the country. They obtained distributorship agreements with fifteen local distributors who owned furniture showrooms in various towns throughout the country. The agreements gave the distributors the right to distribute the factory's products to the market in the name of FFM. They received products equal to LD 50,000 ($40,000) and favourable terms of payments which only after selling the products they had to pay to FFM. The distributors were required to make a financial accounting reports every two months.

The managers were asked about alternative options offered by the government for obtaining a loan. They stated that the outside owners insisted on not borrowing money from banks due to the payment of interest that was prohibited from a religious perspective. Therefore, they used their own funds to finance business expansion.

Firm restructuring

Management replacement

The executive managers were appointed by the board of directors, based on experience and qualifications, for a period of three years. They carried out the day-to-day operations and reported to the board of directors at monthly and quarterly intervals. The board in turn reported annually to the general assembly. The board was elected by the general assembly, based on experience and qualifications, to run the company on its behalf for a staggered term of three years. The board was in charge of proposing general policies and strategies to be discussed and approved by the general assembly. It was in charge of supervising day-to-day activities within the company and ensuring that it was operating in accordance with its policies and strategies.

The board was chaired by the former general director who was also president of the general assembly. He officially represented FFM at outside meetings. There were four deputies. The first deputy was the former finance manager, and he was again head of the finance section. The second deputy was the commerce manager; formerly, he was head of the production section. He directed overall marketing, promotion, sales and public relations policies. The third deputy was a marketing manager who had a background in electronic

engineering and had worked at the factory since 1996. The fourth deputy was an outside person who represented the shareholders.

The supervisory office consisted of internal and external directors; both held a university degree in accounting. They reported monthly and annually on issues related to financial, quality, and technical matters. The legal consultant office was headed by a legal adviser who had a licentiate in law and was involved in any matter concerning laws and regulations. The information office was headed by an engineering manager who provided the company with required information. The administration section was headed by a manager, who had a university degree in management; he had worked earlier in the administration section. In collaboration with administration staff, he executed a variety of managerial matters, including secretarial services, administration, employees' affairs, and data processing. The production section was headed by a manager who held an intermediate diploma of manufacturing studies, and was already working in this section when he was promoted to manager. In collaboration with the production staff, he planned, directed, and coordinated the production activities. The design and quality control section was headed by a manager who also had an intermediate diploma of manufacturing studies; previously, he had worked in the production section. He checked samples of raw materials and the final product to ensure their high and consistent quality. Table 3.20 provides an overview of the changes in management.

Table 3.20: Management position changes at FFM

Position	Existing or new position	Change
General manager	Existed	Same person
First manager deputy	New	See finance manager
Second manager deputy	New	See commercial manager
Third manager deputy	New	See marketing manager
Fourth manager deputy	New	New person (outside investor)
Internal and external managers	Existed	New, from FFM
Legal advisor	Existed	New, from FFM
Administration manager	Existed	New, from FFM
Finance manager	Existed	Same person
Production and technical manager	Existed	Previously worked in the production section and was promoted
Commerce manager	Existed	Previously the production manager
Design and control manager	Existed	Design and control manager

Employee reduction

The financial manager explained that after privatisation, the previous working contract was renegotiated. It was changed from lifetime to an annual format. This alteration induced 10 employees to leave the company voluntarily in 2005 to join other state agencies. They believed that by working at other state agencies, they could retain their secure employment. Thus, the level of employment dropped to 63 employees. The shares of those who left the

company were re-distributed to the owners who stayed behind. For this they paid additionally.

Incentive policies

The factory offered the board an incentive contract to target their efforts at specific results. They were given a considerable amount of freedom to deal with issues and policies such as salary scaling and hiring and firing. In addition, the board was paid a salary which included an allowance of up to LD 250 ($204) for each board meeting. Their average monthly salary was LD 392 ($321) in 2007.

Unlike the board, the salary of the managers and workers was roughly equal to the national wage and was fixed without any allowances. Their average monthly salary was LD 352 ($288) in 2007. The finance manager stated that the factory would eventually be able to pay higher salaries, but this was delayed by the need for substantial reworking of the factory. Thus, there was a regulated and supervised use of money to support the factory's financial plans for improvements. As a result, there was growing discontent among the employees about their salaries which had remained unchanged since the privatisation. The financial manager stated that the company understood the employees' dissatisfaction with their salary but that a salary improvement ultimately depended on the factory's profit and growth.

The general director explained that to motivate the managers and workers, the power to make decisions was now shared. Managers and workers were given a bigger role in decision-making processes, but at the same time they had to comply with guidance from the board of directors. They could participate in major decisions by, for example, presenting their ideas about how activities should be organised, realised, and controlled. They were also allowed to express their opinions and supply the board with relevant information on issues that were of major importance to the factory.

With regard to the bureaucratic procedures involved in the process of funding and importing raw materials, the managers argued that the shareholders were financing the import of the raw materials through their own means. In addition, removing entry and exit barriers and lowering tariffs and taxes had been very helpful in eliminating the previously complicated bureaucratic procedures.

3.5.6 Performance of privatised firm

FFM's performance, the profitability, outputs, and operating efficiency are presented in table 3.21.

Table 3.21: Profit and loss data from FFM after privatisation

Measurement	2004*	2005	2006	2007
Nominal sales (LD)	457,783	2,188,702	2,115,629	1,642,554
Sales growth (% compared to 2004)		378	362	259
Gross profit (loss) (LD)	(293,966)	366,661	382,986	217,292
Net profit (loss) (LD)	(509,450)	44,635	87,817	(89,240)
Profitability ratios:				
ROS	(1.112)	0.020	0.041	(0.054)
ROA	(0.076)	0.007	0.016	(0.019)
Output: real sales	605,534	2,809,631	2,533,688	1,827,091
Real sales growth (% compared to 2004)		364	318	202
Efficiency proxies:				
SALEFF (LD/employee)	8,294	44,597	40,217	29,001
NIEFF (LD/employee)	(9,231)	909	1,669	(1,575)
Number of employees	73	63	63	63

* The 2004 figures are taken as a baseline for the period after privatisation

Profitability

From the profit and loss accounts it follows that the company generated net profits of LD 44,636 ($36,586) in 2005. This came after net losses of LD 509,455 ($417,586) in 2004. In 2006, the net profits were LD 87,818 ($71,981). The increase was mainly due to an increase in sales. Net profits declined in 2007 to net losses of LD 89,241 ($73,148). Managers explained that this was attributed to a drop in sales compared with 2006 while manufacturing costs, mainly labour cost, remained stable. These results as presented in figure 3.50.

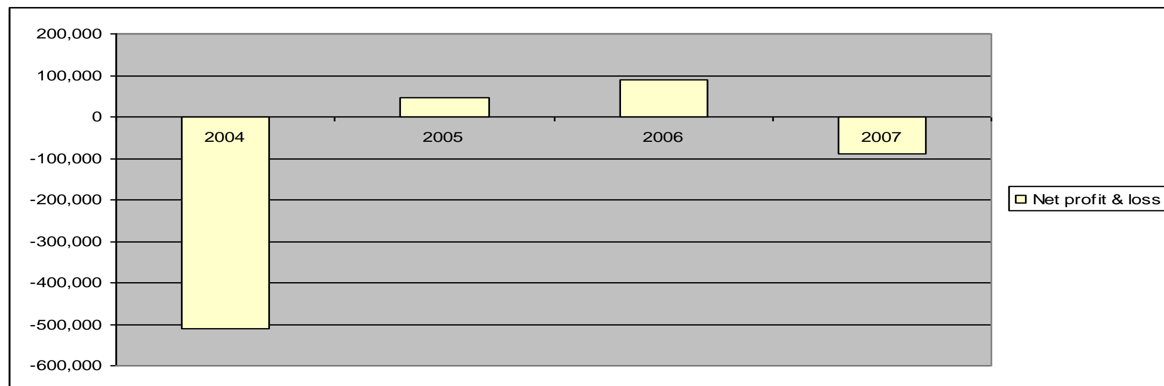


Figure 3.50: Net profits and losses at FFM after privatisation

Figure 3.51 illustrates profits and losses over the entire period before and after privatisation. It shows that FFM is loss-maker before privatisation except for the year of 2001, while it is profit-maker after privatisation except for the year of 2007. This illustrates that the profit did improve after privatisation, but there was again a loss in 2007.

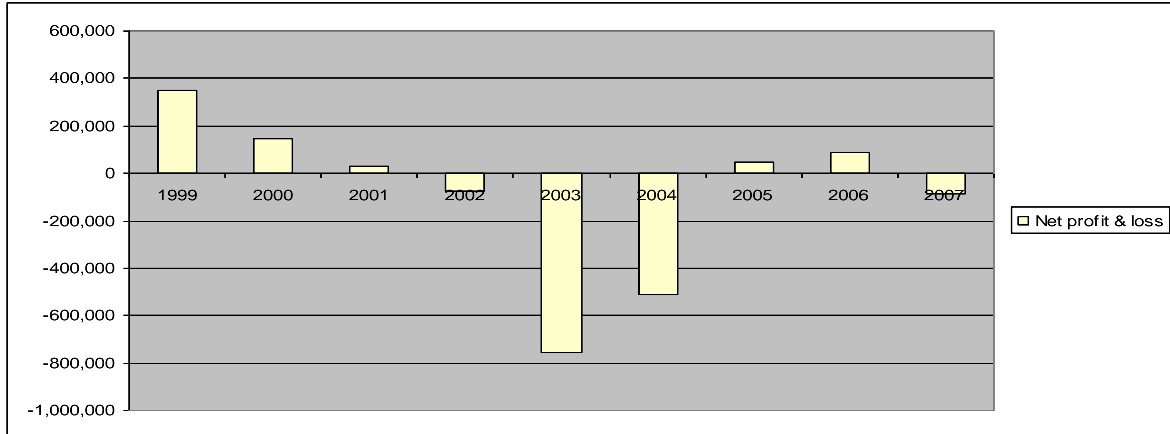


Figure 3.51: Net profits and losses at FFM before and after privatisation

The result of the profitability measures showed that the ROS increased from 0.020 to 0.041 between 2005 and 2006. The ROA also increased from 0.007 to 0.016 between 2005 and 2006. However, both dropped to negative values in 2007. These results are presented in figure 3.52.

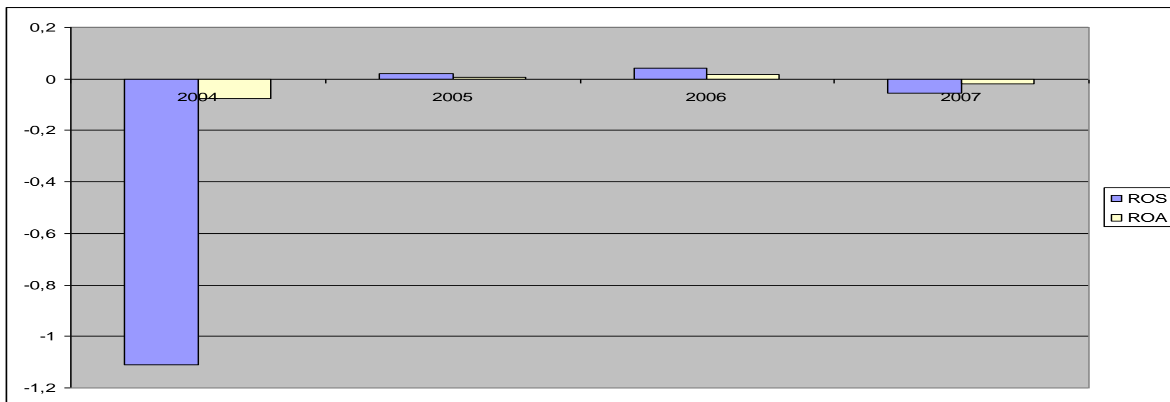


Figure 3.52: Profitability ratios: ROS & ROA at FFM after privatisation

Figure 3.53 provides an overview of the profitability ratios in comparison with the period of before privatisation. This shows that the profit improved after privatisation and the company improved, compared with the situation before privatisation.

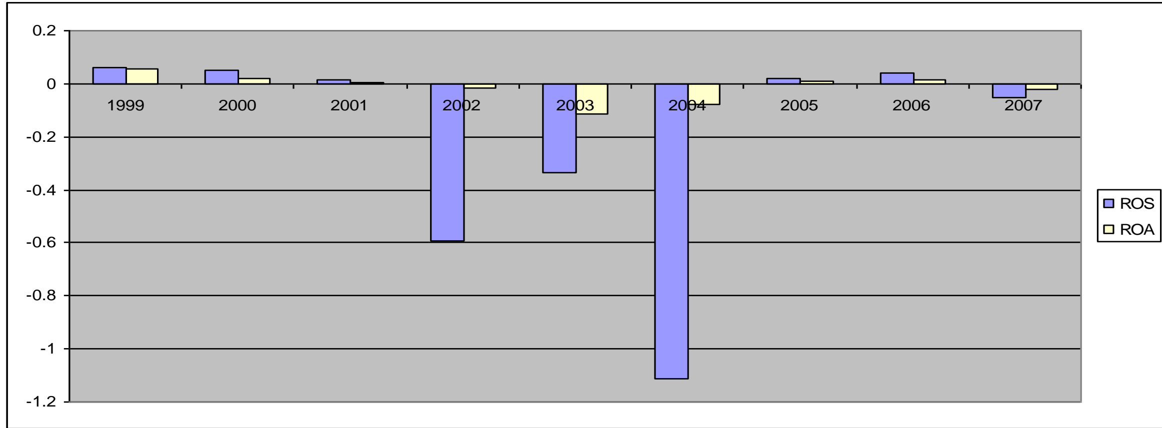


Figure 3.53: Profitability ratios: ROS & ROA at FFM before and after privatisation

Output

Sales increased in 2005 by 333 percent compared with 2004. When they reached LD 2.1 million ($1.7 million). In 2006, they increased by 362 percent compared with 2004, they reached LD 2.1 million ($1.7 million). In 2007, the sales increased by 259 percent compared with 2004 to LD 1.6 million ($1.3 million). FFM experienced increases in sales of 294 percent on average compared with 2004. This was attributed to an increase in the number of showrooms. However, as shown in figure 3.54, sales declined somewhat after 2005.

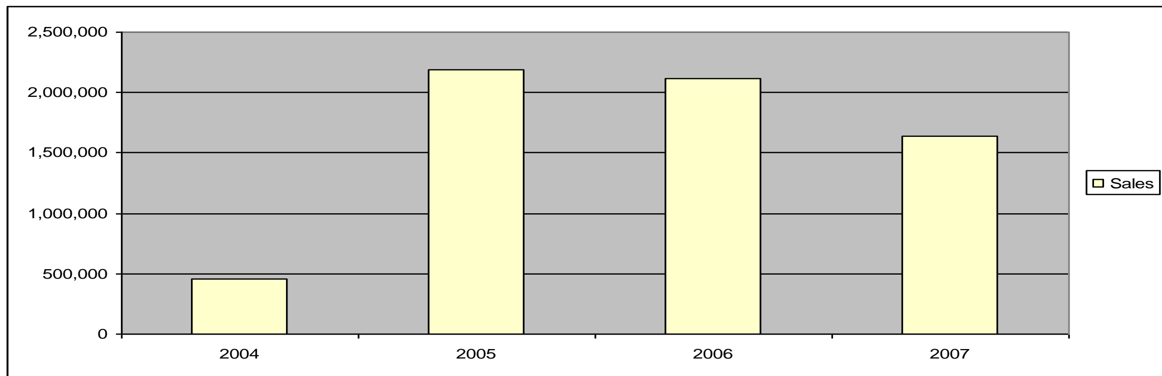


Figure 3.54: Nominal sales at FFM after privatisation

The decrease in sales was explained as follows. Some competitors had entered the market with inexpensive products, and others had maintained their market share by importing high-quality products. Inexpensive products gained a significant market share, while higher-quality products further weakened demand for FFM products. However, the following figure of 3.55 shows that that average sales had increased since privatisation, as especially 2002 was exceptionally weak.

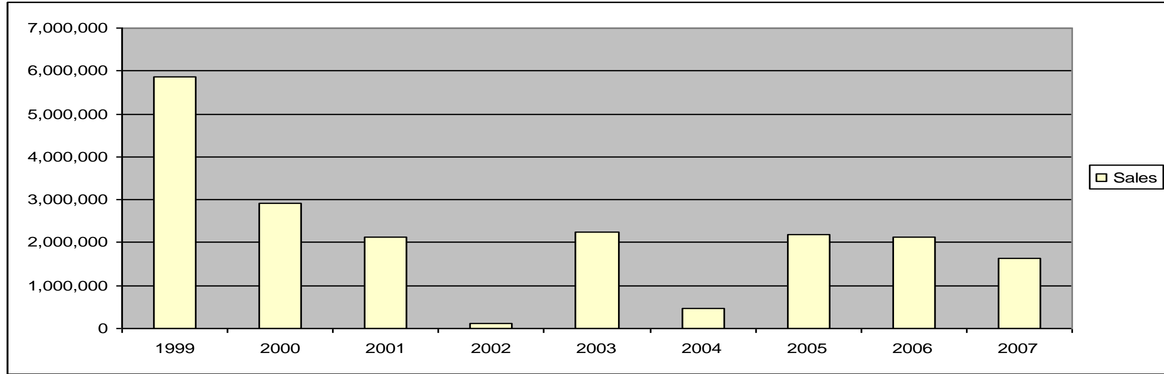


Figure 3.55: Nominal sales at FFM before and after privatisation

In 2005 the real sales were LD 2.8 million ($2.2 million). This was an increase of 364 percent compared with 2004. Sales in 2006 were also higher than in 2004. They reached LD 2.5 million ($2 million), an increase of 318 percent. For 2007, output reached LD 1.8 million ($1.4 million), which was an increase of 202 percent compared with 2004. These results indicated that FFM in general experienced an increase in the real sales of 246 percent on average compared with 2004. But, as illustrated by the figure 3.56, there was a declining trend in real sales since 2005.

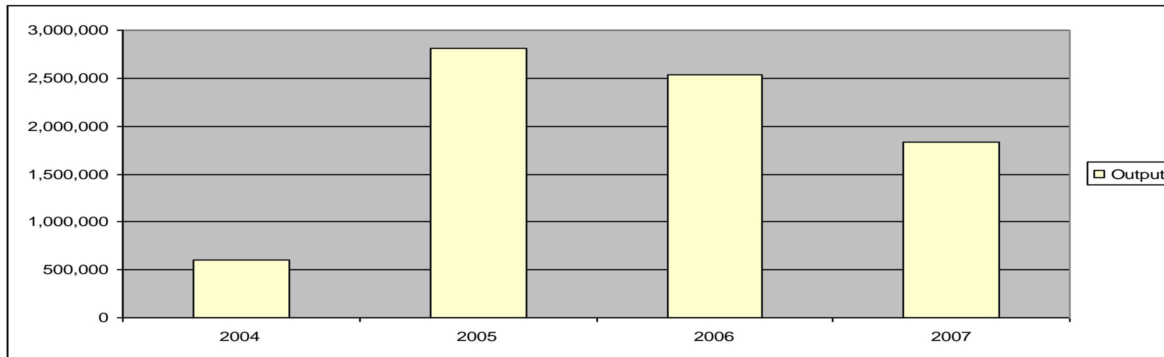


Figure 3.56: Output (real sales) at FFM after privatisation

Figure 3.57 puts these outputs in the context of the period before privatisation. This illustrates that the average output has improved since privatisation and was somewhat higher than those of before privatisation.

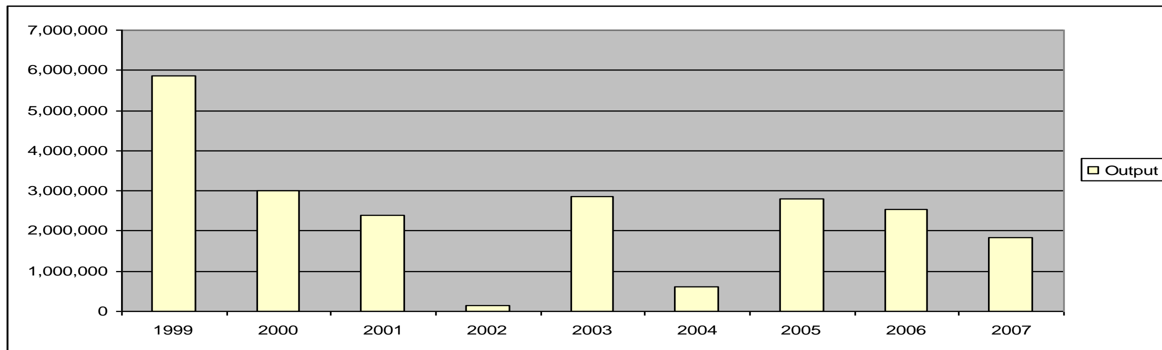


Figure 3.57: Output (real sales) at FFM before and after privatisation

Operating efficiency

The sales efficiency (SALEFF) increased in 2005 to LD 44,597 ($36,554), compared with 2004. In 2006, it reached LD 40,217 ($32,964). In 2007, SALEFF reached LD 29,001 ($23,771). The net income efficiency (NIEFF) increased from negative figures in 2004 to LD 909 ($745) in 2005 and to LD 1,669 ($1,368) in 2006. In 2007 NIEFF declined again to negative figures. FFM experienced an increase in SALEFF of 357 percent on average over the three successive years from 2005 to 2007 compared with 2004. FFM was also profitable except for 2007. Figure 3.58 illustrates that also the trend of SALEFF has declined steadily since 2005.

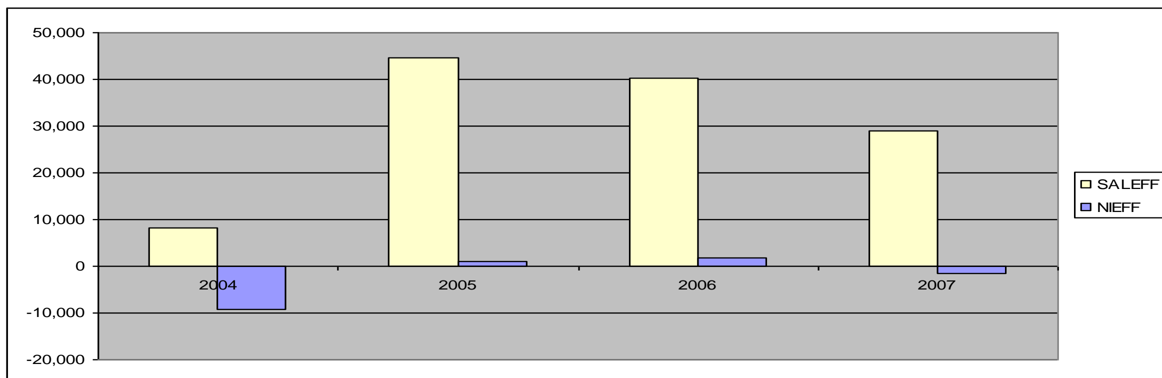


Figure 3.58: Efficiency proxies: SALEFF & NIEFF at FFM after privatisation

Figure 3.59 illustrates the development of the two proxies over time since 1999. It shows a dramatic improvement in sale efficiency after privatisation, but since 2005 a decline has set in. NIEFF is fluctuating.

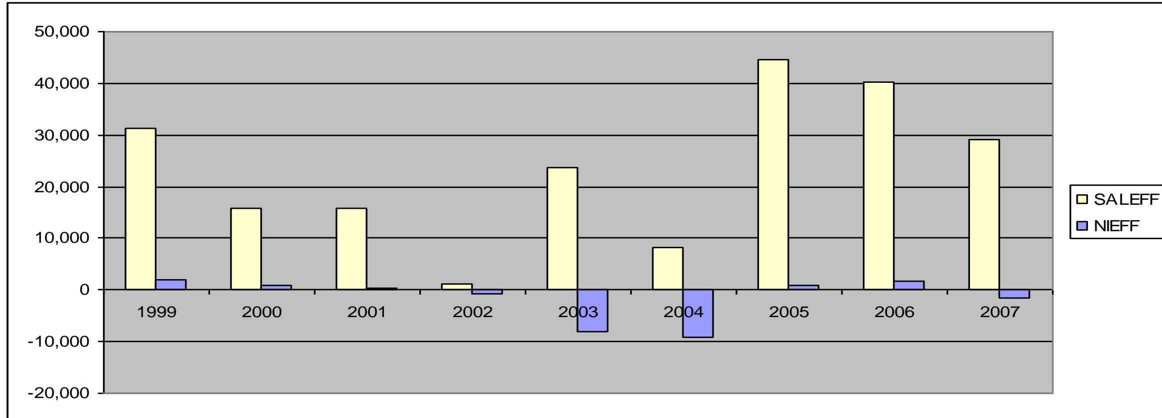


Figure 3.59: Efficiency proxies: SALEFF & NIEFF at FFM before and after privatisation

3.5.7 Conclusions

Privatisation process

The public planning council hired an expert team in early 2002 to conduct a study of FFM. The study concluded that FFM was among the healthiest of the public companies. It was recommended that FFM should be offered for full or partial privatisation through public share offerings. In April 2002, a private consultant office prepared and valued FFM for privatisation. The employees who were interested in FFM created a new company and adjusted the organisational chart and dealt with excess employees. This was followed by the announcement of a public invitation to sell part of FFM to domestic private investors. The initial decision of sale was signed in December 2004. Subsequently, a new board of directors was selected, executive managers were hired, and the working contract was changed from a lifetime to an annual employment contract. Ten employees left the factory to join other government agencies. To motivate the board of directors, they were given a considerable amount of freedom to deal with strategic policies. To motivate the managers and workers, they were given more authority in decision-making processes.

The process of privatisation went slightly differently than that of the previous three cases (figure 3.60).

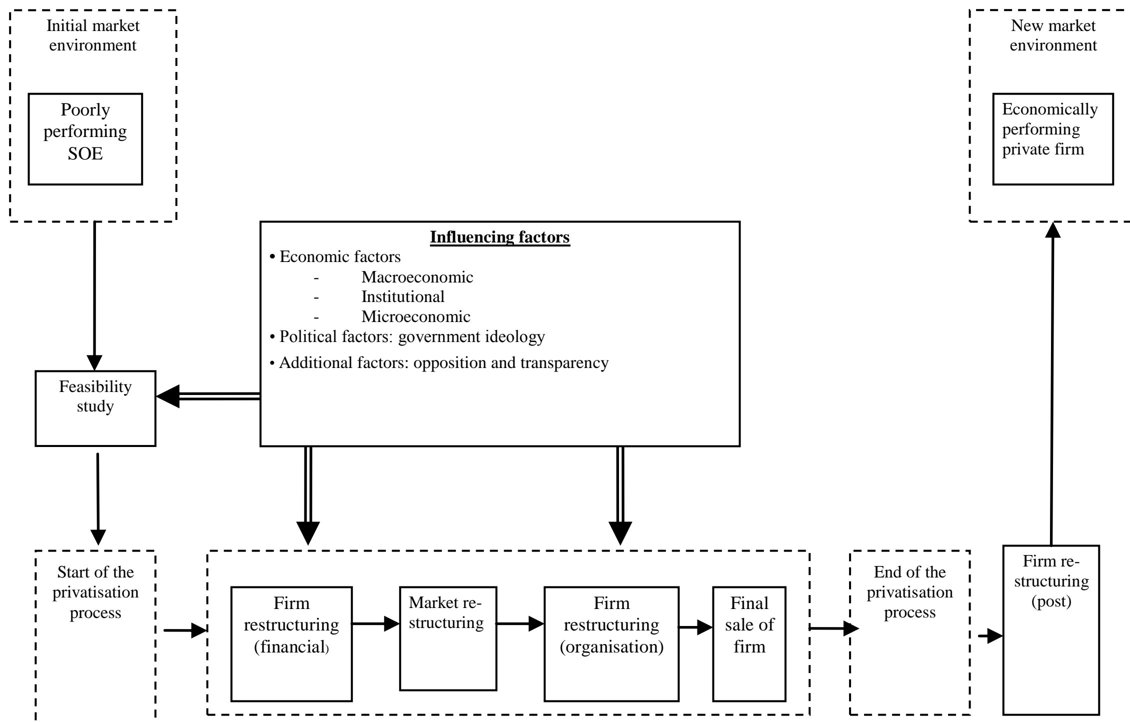


Figure 3.60: FFM privatisation process

This may have been because the first three cases were part of AFC which was placed on the third list (bankrupt companies), while FFM was part of FPC which was placed on the first list (financially sound companies). In this instance no price was established in an early stage, but instead it was based upon the results from an outsider (consultant) assessment.

Performance comparison

The privatisation process was associated with a increase in the sales, output and operating efficiency compared with the period before privatisation. FFM was also profitable, except for 2007 (table 3.22). Overall, FFM has shown little performance improvement compared with the period before privatisation. In addition, the cash that was generated from selling a part of FFM to domestic investors helped the managers to finance the production process. The opening of the market led to it being flooded with similar products but with a better price/quality ratio than FFM products. Additional activities were employed, but they could only stabilise the situation.

Realisation of objectives

The privatisation process can be viewed from three different perspectives.

First, from a government perspective, the privatisation can be considered successful with regard to its organisational format. It was transferred from the state to 614 shareholders including employees and outside local investors. The company is also still operating.

Second, from a management perspective, the privatisation had limited success. On a positive side, the debt of FFM was cleared. The excess employee situation was handled, as employment level was reduced from 153 employees in 2001 to 63 in 2007. The organisational chart was changed to a more decentralised organisation, making the organisation more flexible. The performance of the company is also improved. Sales, output, profits, operating efficiency all increased.

Third, from an employee perspective, the privatisation also had a limited success. Many of the employees left the company and had to find other jobs. The employees who remained received annual renewable contracts instead of the lifetime contracts, meaning much less security. The employees who remained have better incentives to work more effectively, and this worked out in practice at least to stabilise the situation.

Table 3.22: Overview of performance comparison at FFM

Measurement	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
Nominal sales (LD)	5,857,403	2,908,465	2,124,797	121,887	2,231,413	457,783	2,188,702	2,115,629	1,642,554
Sales growth (% compared to 1999/2004)		(50)	(64)	(98)	(62)		378	362	259
Gross profit (loss) (LD)	460,437	239,350	151,325	110,588	240,170	(293,966)	366,661	382,986	217,292
Net profit (loss) (LD)	349,940	147,331	29,229	(72,513)	(753,274)	(509,454)	44,635	87,817	(89,240)
Profitability ratios:									
ROS	0.059	0.050	0.013	(0.594)	(0.337)	(1.112)	0.020	0.041	(0.054)
ROA	0.056	0.021	0.003	(0.015)	(0.113)	(0.076)	0.007	0.016	(0.019)
Output: real sales (LD)	5,857,404	2,995,330	2,400,901	152,740	2,857,123	605,533	2,809,630	2,533,687	1,827,090
Output growth (% compared to 1999/2004)		(49)	(59)	(97)	(51)		364	318	202
Efficiency ratios:									
SALEFF (LD/employee)	31,156	15,932	15,692	1,107	23,613	8,295	44,597	40,217	29,001
NIEFF (LD/employee	1,861	807	215	(658)	(7,971)	(9,231)	909	1,669	(1,575)
Number of employees	188	188	153	138	121	73	63	63	63

CHAPTER 4: CROSS-CASE ANALYSIS

4.1 Overview

Four case studies were presented in chapter 3. These cases dealt with different companies, although there were many common elements. Table 4.1 provides background information of the cases before privatisation.

Table 4.1: Overview of the case companies before privatisation

	TCF	IFPF	ACF	FFM
Organisation	Part of AFC Part of AFPC	Part of AFC Part of AFPC	Part of AFC Not part of AFPC	Part of FPC
Product	Cans	Infant food	Seasonal products such as chilli, olives, tomatoes	Furniture
Location	Al Mamura region (near Tripoli)	Al Mamura region (near Tripoli)	Al Azizya (near Tripoli)	Misuratah (near Tripoli)
Number of employees in 2001	106	56	76	153
Employee contractual situation	Lifetime	Lifetime	Lifetime	Lifetime and annual
Average basic monthly salary in 2001 (LD)	216	245	213	250
Real sales in 2001 (LD)	487,046	850,788	2,091,612	2,400,901
Gross profit in 2001 (LD)	(153,893)	(5,592)	(451,563)	151,325
Net profit in 2001 (LD)	(440,223)	(510,189)	(695,933)	29,229
Sales efficiency in 2001 (LD/employee)	4,594	15,192	27,521	15,692
Income efficiency in 2001 (LD/employee)	(4,692)	(10,294)	(10,346)	215
ROA in 2001	N.A.	N.A.	(0.053)	(0.003)
ROS in 2001	(1.021)	(0.677)	(0.375)	(0.013)

Table 4.2, provides insight into the characteristics of the privatisation process.

Table 4.2: Overview of characteristics of privatisation

	TCF	IFPF	ACF	FFM
Result of evaluation committee	AFC placed on third list, i.e. 7 bankrupt companies with large debt, outmoded technology and overstaffed			FPC placed on first list, i.e. 18 companies with good financial status
Technology situation in 2004	Old machinery, plus new paper cans were introduced which TCF could not produce	Old machinery, old building.	Old machinery, old/insufficient building quality	Good quality, but once the market opened up, competitors offered better quality/price ratio.
Debt situation in 2004 including back pay (LD)	454,966	271,259	603,416	278,077
Staffing situation in 2001	50 excess employees	No over-employment	30 excess employees	31 excess employees
Motive for privatisation	- Change to market economy - AFC was not performing (bankrupt)	- Change to market economy - AFC was not performing (bankrupt)	- Change to market economy - ACF was not performing (bankrupt)	- Change to market economy - FPC was considered to have a good financial status - FPC was considered strategic for economic development
Privatisation mechanism	Sold to employees	Sold to employees	Sold to employees	Sold to employees and to public investors
Initial established price (LD)	1,026,302	307,274	598,139	Not determined
Final price (LD)	1,933,582	969,900	1,000,000	2,820,302
Land included	No	No	No	No

Table 4.3 Provides an overview of the case companies after privatisation.

Table 4.3: Overview of the case companies after privatisation

	TCF	IFPF	ACF	FFM
Nominal sales in 2007 (LD)	Ceased operations	No production	1,081,222	1,642,554
Gross profit in 2007 (LD)	Ceased operations	No production	(16,252)	217,292
Net profit in 2007 (LD)	Ceased operations	No production	(85,159)	(89,241)
ROS in 2007	Ceased operations	N.A.	(0.078)	(0.054)
ROA in 2007	Ceased operations	N.A.	(0.043)	(0.019)
Real sales in 2007 (LD)	Ceased operations	No production	1,202,695	1,827,091
Sales efficiency in 2007 (LD/employee)	Ceased operations	N.A.	31,649	29,001
Income efficiency in 2007 (LD/employee)	Ceased operations	N.A.	(2,492)	(1,575)
Number of employees in 2007	80	24	38	63
Employee contract	Annual renewable	Annual renewable	Annual renewable	Annual renewable
Average basic monthly salary in 2005 (LD)	300	350	430	352
Average basic monthly salary in 2007 (LD)	No salary was paid	No salary was paid	430	352

Two of the companies ceased operations by 2007, i.e. three years after privatisation. Two other companies had losses in 2007. In the following sections, a cross-case comparison will be discussed.

4.2 Privatisation process

The privatisation process of the four companies showed many similarities but also differences. The first three companies, i.e. TCF, IFPF and ACF, which were all part of the Al Mamura Food Company (AFC), which was placed in the third group of companies for privatisation, i.e. bankrupt companies. Based on the firm size, these companies were identified for privatisation to their employees through the *Tashrukya* system. Their privatisations followed a similar procedure:

- Feasibility study: They were identified as part of AFC for privatisation
- Privatisation process:

    - Initial firm valuation
    - Preparation: market restructuring
    - Initial agreement and establishment of new company by employees
    - Preparation: firm restructuring – organisational structure
    - Preparation: firm restructuring – financial
    - Sale of the firm/change of ownership
- Restructuring after privatisation: firm restructuring

The fourth case company was part of the Furniture Public Company (FPC) which was placed in the first group of companies for privatisation, i.e. ones with a good financial situation and products that were considered important for economic development. The medium and large firms, including FFM, were identified for a full or partial privatisation through public bidding, or the *Sharika Musahima* system. The strategic large companies were initially restricted to special bidding between investment holding companies and foreign investors. The process for FFM was therefore slightly different:

- Feasibility study: FFM was identified as part of FPC for privatisation
- Privatisation process:
    - Preparation: firm restructuring – financial
    - Preparation: market restructuring
    - Preparation: firm restructuring – organisational structure
    - Sale of the firm/change of ownership
- Restructuring after privatisation: firm restructuring

Even though the initial plan was to offer the company for full or partial privatisation through public share offerings, the process ultimately developed similar to the other three companies. The employees were invited to a meeting in which they were told that they could buy part of the shares in FFM.

4.2.1 Market restructuring

In all cases, similar mechanisms were applied by the Libyan government to restructure the market. In early 2003, the government issued several legislations to create an effective market environment for privatisation. Tariff reductions were introduced under the Pan-Arab Free Trade Agreement, and a number of trade agreements were concluded with the European Union. For example, the average tariff rates were reduced from 21.8 percent in 2003 to 17.8 percent in 2004. The trade regime was further simplified by cutting the consumption tax on imported goods in half to 15-25 percent. This was to make it easier for international companies to enter the Libyan market. Significant changes in the administration procedure were also introduced. Fifty-one offices were opened across the country to simplify the procedure for starting up new businesses. The state import monopolies were reduced to only petroleum products and weaponry. Furthermore, the list of prohibited imports was scaled down from 40 to 10 products.

To attract more private investors, deregulation was introduced regarding production, prices, wages and the exchange rate of the national currency. To facilitate private investors obtain capital, the interest rate was also reduced. To encourage investors to get involved with privatisation processes, all newly privatised firms were exempted from paying consumption tax on intermediate goods for five years.

4.2.2 Establishing new companies

For each of the four cases, an establishment committee was initiated. This committee started by inviting the employees to a general meeting. During this meeting the initial details of the privatisation process were outlined, and in three of the cases the initial market value of the companies was also calculated. At this meeting the employees were told that if they were interested in acquiring shares within their factories, several options would be available to them. For those employees who were not interested in buying the company, a mixture of options was offered. Those who were interested in buying their firms were required to cooperate with legal editors to create new companies to take over the former factories.

In all cases firm-restructuring activities were made, which dealt with organisational and financial restructuring.

Firm restructuring – organisation

Organisation

Before privatisation, all four case companies operated in a central planning economy under the supervision of the Ministry of Industry. There were six to seven management levels. The first was the general assembly that consisted of several ministries. The second level was made up of people committees that were the supreme management. The third level was the chairman who was head of the committee thus supervised various bureaus. The fourth level for TCF and IFPF was the executive manager of AFPC, at ACF and FFM it was the general director. They were in charge of three to nine departments. Each department was further subdivided into four to eleven functional sections. The heads of the sections were accountable to the chiefs of departments, who in turn were accountable to the executive manager and the general director, then to the chairman, and finally to the general assembly. The fifth level for TCF and IFPF was the general director. He was in charge of three functional sections. These sections were further subdivided into four units each. The heads of the units were accountable to the chiefs of the sections, who were accountable to the general director, who in turn answered to the executive manager.

In all four cases, the managers created new organisational structures which reflected the independent nature of their businesses. Each structure consisted of the general assembly that was the supreme authority within each company. In addition, a board of directors was instituted consisting of the general directors and three to four managers. This constitution of

the board reflected the power-sharing scheme. The structure also consisted of three to five functional sections to manage day-to-day operations.

Management

Before privatisation, all four companies were headed by a general director who supervised the daily activities. They were assisted by three to nine chiefs of departments who were in charge of general inspection of his/her department. Each chief was assisted by four to eleven heads of sections. The managers at TCF and IFPF were selected by AFPC and appointed by AFC, while at ACF and FFM they were internally selected and then officially approved by the chairmen. The managers in all four cases held various academic degrees ranging from intermediate diplomas to university degrees in agriculture and manufacturing studies. They had also been working at their factories for a period ranged from 8 to 21 years.

After privatisation, some of the top managers were replaced. At IFPF and ACF partial replacements took place. However, the people who took over were also insiders who had been working in these factories for at least 20 years. The senior managers at TCF were re-elected again based upon their working experience. At FFM the senior managers were not replaced. The role of management was redefined at each of the four companies. They had a greater amount of authority than before to prepare their own plans, purchase the raw materials, and sell their products.

Employees

In 2001, there was a total of 391 employees in all four companies together. Of these, 358 employees were appointed on the basis of a lifetime contract, while the remaining 33 employees at FFM were hired on the basis of annual contracts. Due to the employment policy of the government, 50 excess employees were found at TCF, 30 at ACF, and 31 at FFM.

Employees took priority in buying the firm. They were also given the right to use their accumulated 1.5 percent of salary contribution as payment for their shares. A period of five years was also offered to pay for the ownership of the firm. After privatisation, the working contract was renegotiated in all cases. It was changed from a lifetime contract to renewable annual contracts. A mixture of options including a self-employment program, early retirement benefit, and the possibility to join other state agencies was offered for those who were not interested in buying their firms. A total of 186 employees from the four cases left their company to retain secure employment at other government agencies. In some instances this led to solving (partially) the excess employee situation.

Incentive policies

Before privatisation, the employees in the four companies were paid according to law no. 15/1981, which determined the salary level for public sector employees. At ACF the

employees received an annual performance-related bonus because the factory followed a philosophy of employees as partners, not wage-workers. The average basic monthly salary ranged from LD 213 ($174) to LD 250 ($204) across the four companies in 2001. Employees perceived this to be a very low salary considering the rising costs of living. Employees at TCF, IFPF and ACF were also paid irregularly.

The scope and the scale of the authority within TCF and IFPF were very limited. The managers were required to report regularly to AFPC, which in turn reported to AFC and finally to the ministry of industry. According to the managers, they were used as an information channel, and their basic task was to deliver the planned targets.

The managers at ACF and FFM were given more independence to make decisions concerning the administration, maintenance, and quality control. But all strategic decisions concerning financial and marketing functions were concentrated at the mother companies. The managers complained about delays that regularly occurred with decision-making as a result of the long bureaucratic procedures.

After privatisation, the salary system in three cases was replaced by a profit-related salary. In those three cases there was an equal distribution of income among the employees in order to encourage them to generate a profit. At the fourth company, FFM, the board was paid a salary including a bonus for attending board meetings. The salary of the other employees was roughly equal to the national wage.

Firm restructuring – financial

The establishment committee in TCF, IFPF, and ACF were requested to carry out stocktaking activities that would assist the GBOT to calculate the final market value for them. It should be noted that this procedure was not unique for these three cases. Several other small public firms in Libya were prepared and evaluated through establishment committees. For FFM, the situation was different. In this instance, the GBOT appointed a domestic consultant office to prepare and value FFM for privatisation. In addition, FFM was prepared for privatisation and valued two years earlier relative to other researched cases. It should be noted that this was also not unique for FFM. Several other medium and large public firms, for example Metal Works Complex, Mitsuratah (MWCM) and Biscuit and Sweets Factory, Mitsuratah (BSFM), were prepared and evaluated by domestic consultant offices.

To relief the firms from any prior obligations, the outstanding taxes, social security payments, unpaid salary, and bank loans were established in all cases. These debts were settled by the Domestic Manufacturing Fund (DMF) through negotiation with creditors.

Assets auditing and valuation were also conducted in to create the technical conditions and level of usefulness of the assets that would help to arrive at their market value. The assessment covered machinery, building, transportation, and furniture.

Sale of the companies

To move forward with the new companies, the initial articles of incorporation for all four cases were signed between August and December 2004. This signing took place between the chairman of GBOT and the general directors.

Following the financial restructuring of the firms (stocktaking activities), the articles of incorporation (effectively ending the "actual" privatisation process) were signed in 2006 for TCF, IFPF and ACP. At FFM, it is still an ongoing discussion.

	Before privatisation (1999-2001)				After privatisation (2005-2008)			
Subject	**TCF**	**IFPF**	**ACF**	**FFM**	**TCF**	**IFPF**	**ACF**	**FFM**
The ownership	A fully publicly owned factory, administered by the ministry of industry helping to get state subsidies	A fully publicly owned factory, administered by the ministry of industry helping to get state subsidies	A fully publicly owned factory, administered by the ministry of industry helping to get state subsidies	. A fully publicly owned factory, administered by the ministry of industry helping to get state subsidies	A fully employee –owned factory, the employees were the ones who financed TCF through their own means.	A fully employee –owned factory, the employees were the ones who financed IFPF through their own means.	A fully employee –owned factory, the employees were the ones who financed ACF through their own means.	70 % outside owners 30 % employee. The owners were the ones who financed FFM through their own means
The organisation chart	-The GA -The PC of AFC - The chairman of AFC - The EM of AFPC -The GD of TCF -3 functional departments -4 sections	-The GA -The PC of AFC -The chairman of AFC - The EM of AFPC -The GD of IFPF -3functional departments -4 sections	-The GA -The PC of AFC -The chairman of AFC -The GD of ACF -5functional departments -9 sections	-The GA -The PC of PFC -The chairman of PFC -The GD of FFM -9functional departments -11 sections	-The GA -The BD -The GD -5functional departments	-The GA -The BD -The GD -3 functional departments	-The GA -The BD -The GD -5 functional departments -5 sections	-The GA -The BD -The GD -9functional department -13 sections
The management	-The GD -3 Chiefs of departments -4 Heads of sections -Selected by AFPC -Manufacturing studies - At least 20 years of working experience	-The GD -3 Chiefs of departments -4 Heads of sections - Selected by AFPC -University graduates -At least 10 years of working experience	-The GD -5 Chiefs of departments -9 Heads of sections -Internally elected -College education -At least 21 years of working experience	-The GD -He was hired by PFC -9 Chiefs of departments -11 Heads of sections -Internally elected -University & college education with working experience ranging between 8 and 15 years	-The BD -Elected by the GA -5 executive managers -Appointed by the BD -The managers were not replaced as expected	-The BD -Elected by the GA -3 executive managers -Appointed by the BD -The managers were replaced, but they were insiders	-The BD -Elected by the GA -5 executive managers - 5 Heads of sections -Appointed by the BD -The managers were replaced, but they were insiders	-The BD -Elected by the GA -9 executive managers -Appointed by the BD - 13 Heads of sections -The managers were replaced, but they were insiders
The employees	-106 employees in 2001 -Long-life employment contract -50 excess employees	-56 employees in 2001 -Long-life employment contract	-76 employees in 2001 -Long-life employment contract -30 excess employees	-120 employees hired with long-life contract -Plus 33 employees with annual contract -31 excess employees	-80 employees in 2007 -Annual employment contract -30 excess employees	-24 employees in 2007 -Annual employment contract	-38 employees in 2007 -Annual employment contract	-63 employees in 2007 -Annual employment contract
The incentive policies	- A national salary -Irregularly paid -Average salary was LD 216 ($177) in 2001 - Limited authority	- A national salary -Irregularly paid -Average salary was LD 245 ($200) in 2001 - Limited authority	- A national salary -Profit sharing -Irregularly paid -Average salary was LD 213 ($174) in 2001 - Partial authority	- A national salary - Regularly paid -Average salary was LD 250 ($204) - Partial authority	- A profit-related salary -Average salary was LD 300 ($245) in 2006 - Full authority	- A profit-related salary -Average salary was LD 350 ($286) in 2006 - Full authority	- A profit-related salary -Average salary was LD 450 ($368) in 2007 - Full authority	- A national salary - Compensation to the Board of Director - Full authority

Table 4.4 Overview of the structure of the case companies

4.3 Performance comparison

The performance of the companies after privatisation was compared with that before privatisation across the companies based on profitability, output and operating efficiency.

4.3.1 Profitability

The comparison of the results, presented in table 4.5, show that the average losses at TCF declined by 78 percent from LD (361,832) [$296,583] to average of LD(79,324) [$79,773]. This was attributed to the increase in the sales resulted from a limited number of orders that were secured from three traditional clients.

Table 4.5: Net profit across all case companies before and after privatisation

	TCF	**IFPF**	**ACF**	**FFM**
	Net profit	Net profit	Net profit	Net profit
2001	(440,223)	(510,189)	(695,933)	29,229
2002	(227,775)	(644,593)	(109,032)	(72,513)
2003	(417,500)	(249,565)	(534,515)	(753,274)
Average	**(361,832)**	**(468,115)**	**(446,493)**	**(265,519)**
2004	Privatisation year			
2005	(135,448)	N.A.	(43,008)	44,635
2006	(102,525)	N.A.	425,785	87,817
2007	N.A.	N.A.	(85,159)	(89,240)
Average	**(79,324)**	**N.A.**	**99,206**	**14,404**
Change %	(78)	N.A.	122	105

IFPF was loss-making over these successive years of before privatisation. IFPF was not able to provide data for period of after privatisation. This limits the opportunity to measure the performance change after privatisation. ACF was able to achieve small profit after privatisation. This was attributed to the increase in sales in 2006 due to the supply and delivery agreements obtained with local investors. The average losses at FFM are also improved after privatisation to small profit. This increase was mainly attributed to an increase in sales resulted from a new sale strategy.

In line with the net profit, the ROS and ROA were negative across all cases over these successive years from 2001 to 2003. After privatisation, these indicators showed a mixed pattern. The ROS and ROA were still negative at TCF, while they both improve to a positive value at ACF and FFM. Table 4.6 provides an overview of net profit across all case companies before and after privatisation.

Table 4.6: ROS and ROA across cases before and after privatisation

	TCF		IFPF		ACF		FFM	
	ROS	**ROA**	**ROS**	**ROA**	**ROS**	**ROA**	**ROS**	**ROA**
2001	(1.021)	N.A.	(0.677)	N.A.	(0.375)	(0.053)	0.013	0.003
2002	(1.322)	N.A.	(4.889)	N.A.	(0.179)	(0.008)	(0.594)	(0.015)
2003	(2.021)	N.A.	0	N.A.	(1.549)	(0.045)	(0.337)	(0.113)
Average	**(1.454)**	**N.A.**	**(1.855)**	**N.A.**	**(0.701)**	**(0.035)**	**(0.306)**	**(0.041)**
2004	Privatisation year							
2005	(0.251)	(0.251)	N.A.	N.A.	(0.086)	(0.020)	0.020	0.007
2006	(0.534)	(0.534)	N.A.	N.A.	0.286	0.187	0.041	0.016
2007	N.A.	N.A.	N.A.	N.A.	(0.078)	(0.043)	(0.054)	(0.019)
Average	**(0.261)**	**N.A.**	**N.A.**	**N.A.**	**0.040**	**0.041**	**0.002**	**0.001**
Change %	(78)	(82)	N.A.	N.A.	106	217	101	102

It can be concluded that with regard to the measure of profitability, TCF generate losses before and after privatisation, although it should be mentioned that the losses of after privatisation are lower than those before. The profits generated at ACF and FFM after privatisation were higher than those generated in the years before privatisation. Figure 4.1 provides an overview.

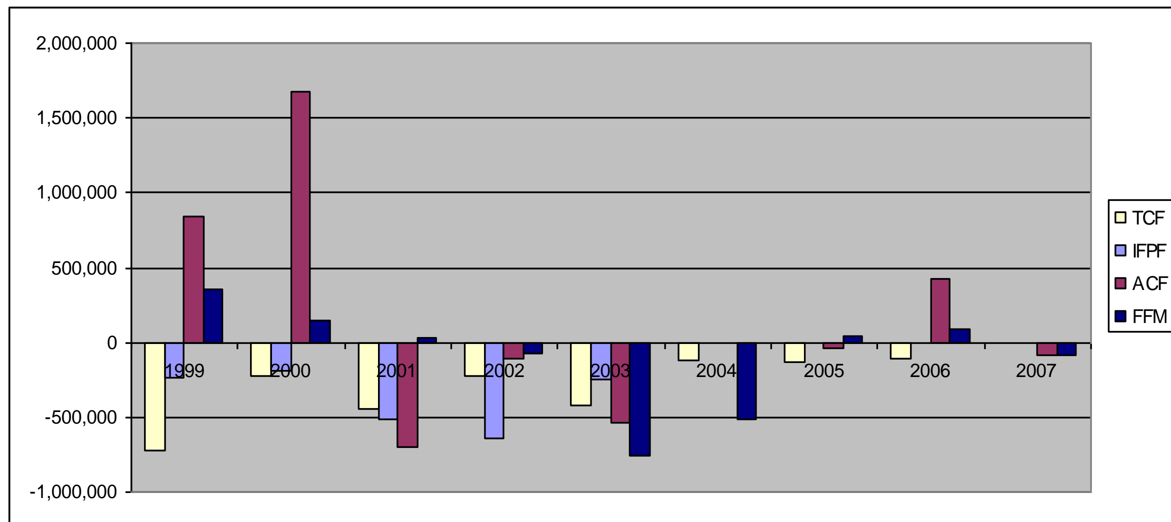


Figure 4.1: Net profit across all four cases before and after privatisation

4.3.2 Output

TCF had steadily declining real sales after privatisation compare with those of before privatisation. It drop by 5 percent from an average of LD 322,423 ($264,281) over 2001 to 2003 to an average of LD 306,949 ($251,597) over 2005 to 2007, see table 4.7. This result is attributed to the lack of demand due to the growing competition.

Table 4.7: Average of output before and after privatisation

	TCF	IFPF	ACF	FFM
	Real sales	**Real sales**	**Real sales**	**Real sales**
2001	487,046	850,788	2,091,612	2,400,901
2002	215,840	165,192	760,953	152,740
2003	264,384	0	441	2,857,123
Average	**322,423**	**338,660**	**951,002**	**1,803,588**
2004	Privatisation year			
2005	691,175	N.A.	639,120	2,809,630
2006	229,674	N.A.	1,781,069	2,533,687
2007	0	N.A.	1,202,695	1,827,090
Average	**306,949**	**N.A.**	**1,207,628**	**2,390,135**
Change %	(5)	N.A.	27	33

IFPF showed fluctuating real sales prior to privatisation. Unfortunately, no data were available for IFPF after privatisation. ACF showed an increase in real sales after privatisation due to the supply and delivery agreements obtained with local investors. Finally, the real sales of FFM were also steadily increased after privatisation, as results of a new sales strategy that led to more showrooms.

Both ACF as well as for FFM, there was an increase real sales after privatisation compared with those of before privatisation. TCF shows less real sales after privatisation compared with before privatisation. The companies have mixed results for the real sales performance (figure 4.2). ACF and FFM show better real sales after privatisation, while TCF shows decreased real sales after privatisation.

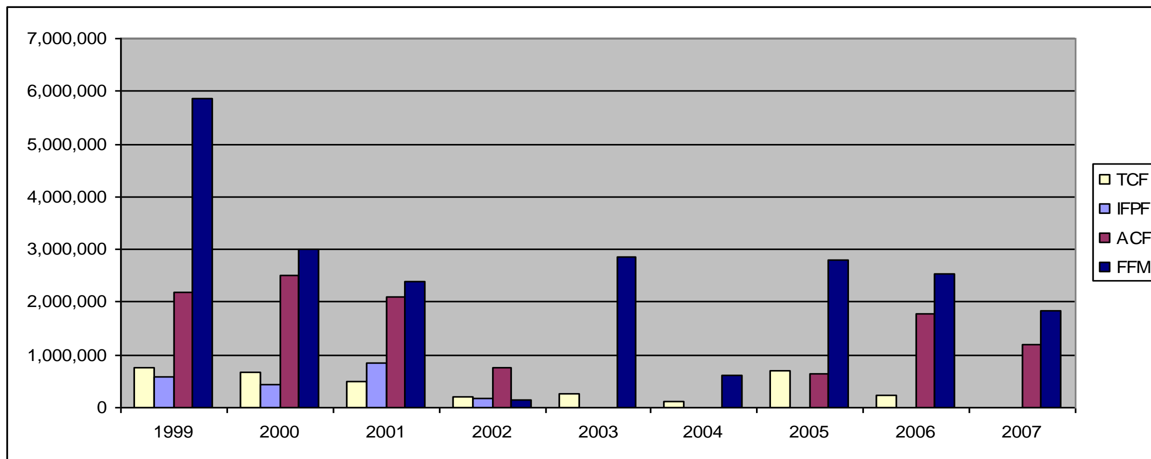


Figure 4.2: Output (real sales) across all four cases before and after privatisation

4.3.3 Operating efficiency

In contrast with the previous two sets of measures, the operating efficiency measures showed similar positive patterns across the cases, see table 4.8.

Table 4.8: Average of sale efficiency before and after privatisation

	TCF	IFPF	ACF	FFM
	SALEFF	**SALEFF**	**SALEFF**	**SALEFF**
2001	4,594	15,192	27,521	15,692
2002	2,036	2,949	10,012	1,107
2003	2,494	0	5	23,613
Average	**3,041**	**(6,047)**	**12,512**	**13,470**
2004	Privatisation year			
2005	8,131	N.A.	16,818	44,597
2006	2,870	N.A.	46,870	40,217
2007	N.A.	N.A.	31,649	29,001
Average	**3,667**	**N.A.**	**31,779**	**37,938**
Change %	21	N.A.	154	182

At TCF, the sales efficiency initially improved dramatically after privatisation, but then declined in 2006 to levels similar to those before privatisation. Sale efficiency declined steadily at IFPF. Unfortunately, data were not available after privatisation. At ACF, the sales efficiency went up after privatisation compared to the situation before privatisation. FFM, the sales efficiency after privatisation was also higher than that of before privatisation.

It can therefore be concluded that the sales efficiency after privatisation across three cases is higher than those of before privatisation. Figure 4.3 provides an overview of the sales efficiency (SALEFF) across all cases.

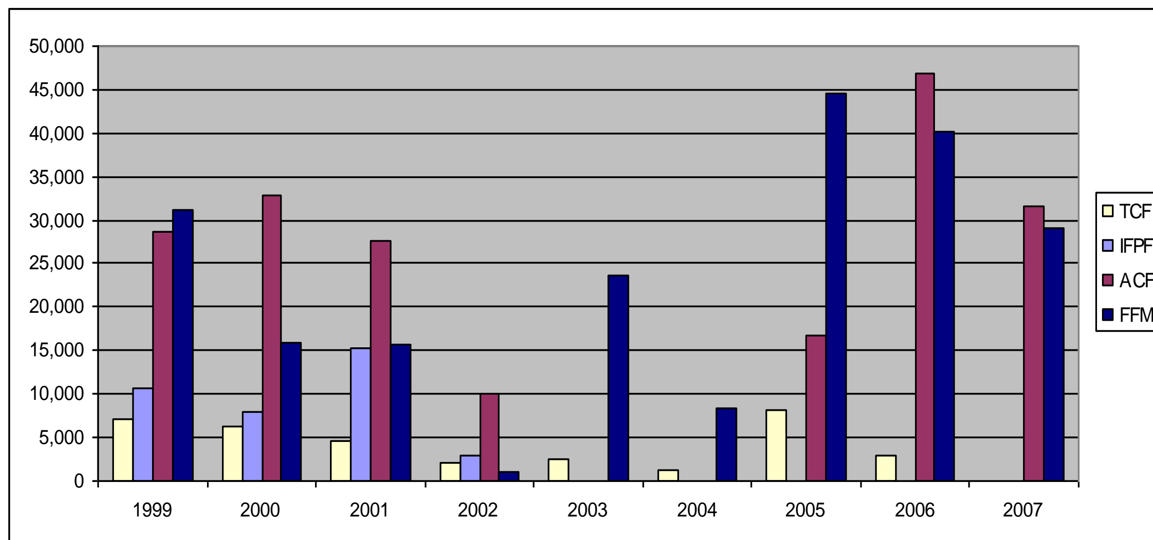


Figure 4.3: Sales efficiency (SALEFF) across all cases before and after privatisation

In contrast with the sales efficiency, the net income efficiency shows slight improve after privatisation at TCF, but remained still negative. At FFM, the NIEFF is also improved from

negative to a positive average, thus it is better than those of before privatisation.

Table 4.9: Average of net income efficiency before and after privatisation

	TCF	IFPF	ACF	FFM
	NIEFF	**SALEFF**	**NIEFF**	**NIEFF**
2001	(4,692)	15,192	(10,346)	215
2002	(2,692)	2,949	(1,797)	(658)
2003	(5,034)	0	(9,005)	(7,971)
Average	**(4,139)**	**(6,047)**	**(3,036)**	**(2,804)**
2004	Privatisation year			
2005	(2,045)	N.A.	(1,452)	909
2006	(1,534)	N.A.	13,419	1,669
2007	N.A.	N.A.	(2,492)	(1,575)
Average	**(1,193)**	**N.A.**	**3,158**	**788**
Change %	(17)	N.A.	204	128

It can therefore be concluded that the net income efficiency still fluctuated across the three cases. Although it was better than those of before privatisation, but it still remained a negative figure. Figure 4.4 illustrates the developments with the net income efficiency (NIEFF) across all cases.

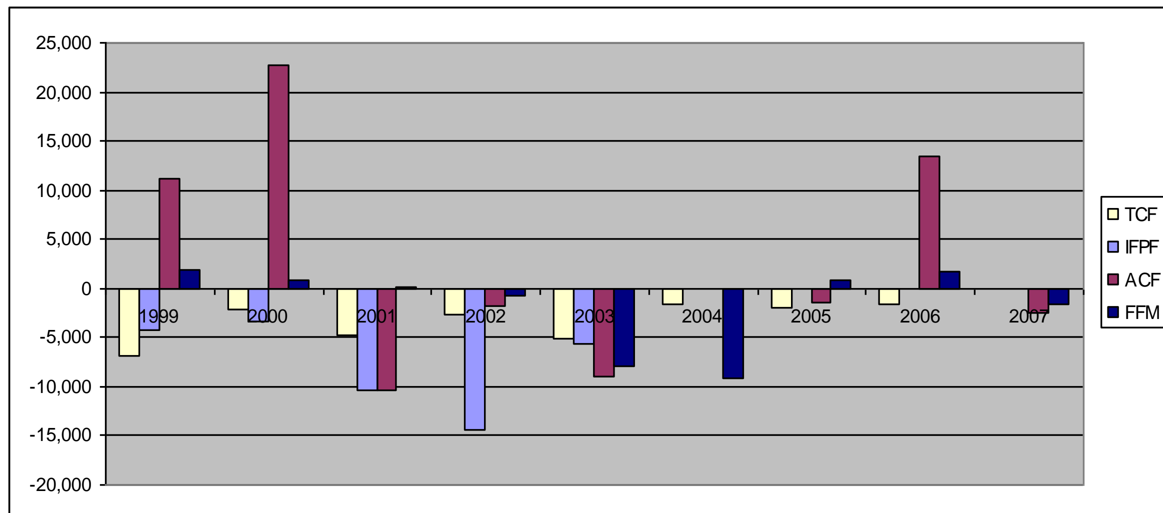


Figure 4.4: Net income efficiency (NIEFF) across all cases before and after privatisation

4.4 Realisation of objectives

All companies were publicly owned factories prior to privatisation, financed by the General Treasury and controlled by the Ministry of Industry. The ministry exercised control over the companies by setting up the general policies and appointing the leading directors. Privatisation transferred the ownership of all companies to private investors. In the first three cases the companies became fully employee-owned, while FFM's ownership was a

mix of ownership by employees and outside local investors.
To determine whether the privatisation was successful, several perspectives have to be taken into account: government, management, employees and new owners.
From a government perspective, the privatisation can be considered successful if the ownership is successfully transferred for all companies. It can also be considered successful if it received adequate financial compensation for the companies. This was also the case. In the first three cases the money received was a larger amount than the initially estimated value. Lastly, it can be considered successful if the companies become more profitable when in private hands, or at least keep operating. In this regard, the results are mixed since TCF and IFPF ceased operations and for ACF and FFM the performance turned out not to be improved significantly.
From a management perspective, the privatisation is considered successful if the company is decentralised, i.e. the state's governance structures are removed, and managers gain decision-making authority on various issues. This was indeed achieved in all of the cases. An issue is whether the managers were equipped with the necessary skills to continue managing an organisation which was faced with a radically different industry environment after privatisation. This was not the case. The managers in the four cases had limited decision-making authority before privatisation, when they had controlled production targets and essentially guaranteed demand. After privatisation, the situation was different. The managers had to sell/market their products, had decision-making authority in areas where previously they did not and lacked the specific experience, when faced with increased competition. Furthermore, the equipment and facilities were outdated three of the cases, which made the problem even more difficult to tackle. Although their job authority was enriched, they were not prepared to deal with the increased demands that were placed on them.
From an employee perspective, the privatisation is considered a success if the overall situation for employees improved. This was not necessarily the case. In the four cases, the average pay for employees went up. However, their contracts were changed from lifetime to annual renewable contracts. Hence, job security went down. Employees gained more involvement in the decision-making processes, which might have created more job satisfaction.
From the new owners' perspective, the privatisation can be considered to be a success if the investment has a good return on investment (financial). As shown by the performance indicators, this was not the case. Two of the companies marked improvements in most of the performance measurements, but the improvements were not very substantial. The two other companies ceased operations. The companies were in a situation where they were not able to raise money to fund their operations. Therefore, from an owners' perspective, the privatisation can be considered only very limited success, to an outright failure.

Table 4.10: Overview of perspectives on success of privatisation

	TCF	**IFPF**	**ACF**	**FFM**
Government perspective				
Ownership change realised	Yes	Yes	Yes	Yes
Received money (sufficient) for the company	Yes	Yes	Yes	Yes
Company continued successfully under private ownership	No	No	Mixed	Mixed
Management perspective				
Remaining managers had more management tasks	Yes	Yes	Yes	Yes
Remaining managers were adequately prepared for the changed market conditions	No	No	No	No
The facilities were adequate to continue competitively in the market	No	No	No	Yes
Employee perspective				
Remaining employees had improved pay	A little but then company ceased operating	A little but then production stopped	A little	A little
Remaining employees had improved job satisfaction	Yes	Yes	Yes	Yes
Remaining employees had secure jobs	No	No	No	No
Owner perspective				
Did the company offer a satisfactory financial return on the investment?	No	No	No	No

CHAPTER 5: CONCLUSIONS, REFLECTIONS, AND RECOMMENDATIONS

5.1 Conclusions

The last wave of privatisation of Libyan companies was initiated in 2001-2002. The government created a number of evaluation teams to assist it in deciding which public firms should be privatised and how this process should take place. As a result, 30 large firms were classified into three groups. The first group contained eighteen strategic firms, including FFM. It was recommended that they should remain in the public sector. The second group contained five firms that showed a modest profit. It was recommended that they should be privatised. The last group contained seven bankrupt firms. It was recommended that they should be liquidated, while their branches should be privatised. The branches included TCF, IFPF and ACF.
Resolution no. 72/2002 concerning privatisation was adopted. Extensive market restructuring also took place. Following the market restructuring, particularly in April 2004, the government issued resolution no. 100/2004 which finalised the details and approved the initial value of 126 public firms. To execute this resolution, the GBOT created several committees to monitor the privatisation and obtain the final market value of each firm. Legal editors were also hired to declare newly privatised firms. This section draws conclusions with regard to the research questions.

5.1.1 Steps involved in privatising Libyan public companies (RQ1)

Based upon the literature, a conceptual research framework was developed. The research framework is depicted in figure 2.2.
The case analysis showed a slightly different process for the companies in Libya. This is depicted in figure 5.1. This process was followed for the first three cases. The fourth case deviated slightly from this because there was no initial firm valuation and consequently no initial firm financial restructuring. This was moved to later in the process. The change is marginal and may have occurred due to the slightly larger size of the company or because the fourth case firm appeared on a different initial list from the Libyan government. The findings showed that there were two distinct types of firm restructuring: organisational and financial.
The factors that were found from the literature review (table 2.5) influenced the process as expected. However, some factors were more important for certain steps than other factors. Three categories of factors were identified: economic factors, political factors and additional factors. The economic factors were divided into macroeconomic factors, institutional factors and microeconomic factors.

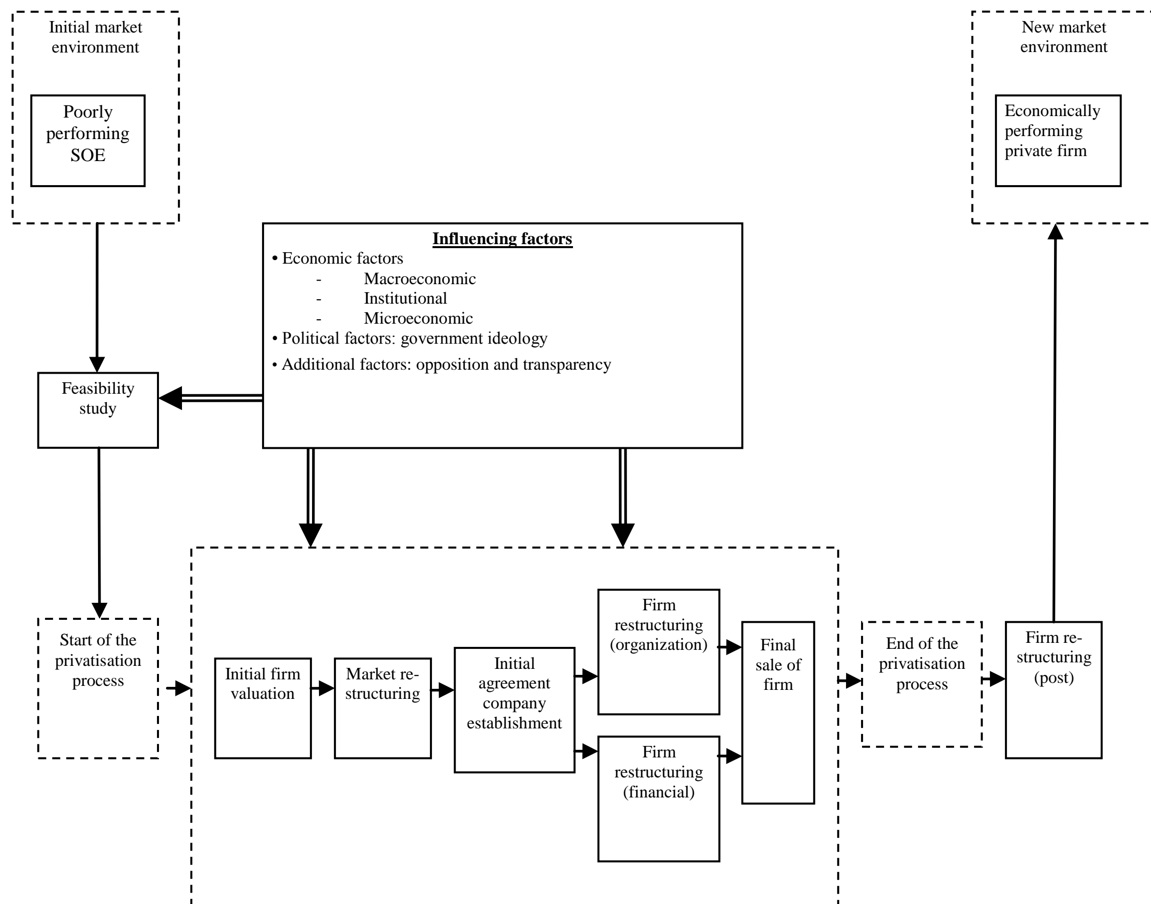


Figure 5.1: Privatisation process based on the case studies

Macro- and Microeconomic factors were the most important ones for initiating the privatisation process. There was pressure to improve the economic situation of the country, and the SOEs were not performing well. Organisational structures represented centralised decision-making, low salaries and over-employment. The feasibility study took place at a macroeconomic level, where it was decided which companies/industries would be privatised.

Microeconomic factors were found very important during the privatisation process. This relates in particular to the ownership of the company, its organisation, and the sales price. After privatisation, the microeconomic factors turned out to be again important. In particular: the organisational structure, the employee situation and the performance. Furthermore, institutional factors had a big impact on the success or failure of the privatisation due to deregulation and increased competition.

While the privatisation process in different parts of the world has some common characteristics, such as the methods followed, each country's experience seems to be unique (Boubkri & Cosset, 1998). One particular aspect of the privatisation process in Libya was

that it included an initial and final decision of sale. The initial decision was based on a limited financial analysis, while the final decision of sale was based on a more in-depth financial analysis, which led to an increase in the sales price. In all four cases, the employees were (partly) the buyers.

5.1.2 Performance of privatised Libyan companies (RQ2)

The analysis in chapter 4 showed that the performance of two of the companies of ACF and FFM improved after privatisation but to a limited extend, while it did not uniformly improve at TCF. For IFPF data were not available after privatisation, but similar to TCF, it ceased operations. The literature study showed that published results so far have been conflicting on performance improvement. One of the issues is that the performance of firms cannot simply be looked at from a privatisation perspective, i.e. looking at factors/concepts related to privatisation (such as ownership) and how they correlate to performance. Instead, a broader perspective is necessary to explain firm performance in general.

Before privatisation, the situation in Libya had a centralised decision-making and a regulated industry. The companies had basically a guaranteed demand for their products. Over-employment was not an issue because individual companies weren't competing, rather they were just part of a much larger company. Technologies were not an issue either as long as the goods could be produced overall at an aggregate level for a reasonable cost. Reasonable in this case means affordable according to the Libyan government. It did not mean that they aimed at alternatives such as state-of-the-art production technologies or higher quality products. Essentially, the whole concept was to provide the Libyan people with products that the government could afford to produce and to provide people with jobs. Managers therefore had limited responsibilities and weren't concerned with competitiveness issues, cost issues (because of over-employment) or quality issues (such as potentially higher quality competitors). In the words of a production manager from TCF, they were there to deliver the planned targets.

Based upon these conditions, it can be expected that a SOE's performance is not as efficient and competitive as that of a private company. Hence, as part of the international development it makes sense to privatise. However, privatisation doesn't merely involve the change of ownership. A range of aspects need to be changed in order to transform the SOE into a company that operates effectively and efficiently and is competitive and thus able to survive in the marketplace. It is this last aspect which explains the limited success of the privatisation process in Libya. In Libya the process was mostly one of changing ownership. The other necessary conditions were not met.

The industry changed from a regulated industry to a market-based industry. In other words, competitive forces were introduced. For any company to survive in an essentially free market, it had to be able to compete. Competition takes place on several dimensions such as cost, quality and innovativeness. But these aspects were not significantly changed. For

example, the technology was not changed. Privatisation also did not lead to a significant change in management, bringing in new managers who had experience operating in this type of new environment. It is not the change of management itself that is important when privatising. What is important is whether the management is capable of handling this new environment. If it is, then management change may not be necessary. If it is not, then the management needs to be changed. In the case of Libya, the managers did not have any experience with free markets and were therefore unprepared to deal with the change. In that situation, the management should have been replaced entirely with new managers who were capable of operating in free markets. This did not occur. Over-employment was not handled properly. But this is difficult or impossible to accomplish when the employees are also the owners. Lastly, the processes followed also made it very difficult for the companies to invest in upgrades. because a critical aspect was missing, i.e. land as collateral.

This illustrates another unique aspect of the privatisation process in Libya. A number of factories were sold to employees who had to establish new companies that took over the former SOEs. The employees were essentially placed in an awkward situation: the company at which they worked was changed from a SOE. They had an opportunity to buy the company. If they did, they essentially saved their job, at least initially. If they did not buy the company, then the remaining question was whether somebody else would buy the company. If not, they would lose their job. If somebody else did buy the company, then the question would be what type of management would take over and whether jobs would be sacrificed. As the example of TCF shows, this set-up was essentially a recipe for failure. Initially, things looked as an improvement, and the owners of the company (the employees) received higher salaries, but within three years, the company went out of business. The employees lost their jobs, and the money they invested in the company.

5.1.3 Realisation of privatisation objectives (RQ3)

The analysis in chapter 4 showed that several different perspectives can be taken with regard to the success of privatisation. Objectives were not explicitly formulated for each of these levels, but the information from the cases provides insight making it possible that some assessment of success can be made. Essentially, for the government, the privatisation can be considered mostly a success. It was able to sell its companies. State ownership was reduced, and the markets were opened up to international competitors. Hence, it created much more market-oriented industries, which was one of its goals. From a management perspective, the privatisation can be considered limited success. On the one hand, the managers had more decision-making authority, but on the other, they were not prepared to deal with the new realities. From an employee perspective, the privatisation can also be considered limited success. Although on the one hand, employees enjoyed salary raises, on the other, many lost their job, and they had a much less secure future due to the imposition of annual contracts. Lastly, from an owners' perspective the privatisation can be considered

a limited success since no really successful company was created with a good enough profit level to produce a good return on investment.

5.2 Reflections

5.2.1 Reflection research expectations

The expectations for this research were formulated in chapter 2. They were based upon the review of the literature and provided guidelines for the data collection.

One of the expectations was that a market restructuring would accompany the privatisation process. Essentially, the market would be opened up simultaneously with privatisation of the firms. This was indeed the case in Libya. Tariff reductions were introduced, and there was a reduction of the dispersion of tariffs within product categories. In addition, the certification requirements for trade with Maghreb countries were simplified. This made it easier for foreign investors to enter the country. Lastly, the consumption tax rate on imported goods was reduced to 15-25 percent. Local competition also increased. Law no. 21/2001, which covered economic activities in Libya, was replaced by law no. 21/2004, which created new investment codes. Fifty-one offices were opened across the country to simplify the procedures for starting up new businesses. The state import monopolies and the list of prohibited imports were reduced. This is in line with the findings of Kayizzi-Mugerwa (2002), who suggested that successful privatisation must be combined with revising the existing laws to increase the competition.

Another expectation for the privatisation process was that new laws would be introduced by the government prior to privatisation. This also happened in Libya. A list of new legislations concerning the deregulation of production, prices, wages, and exchange rate of the national currency were issued (IMF, 2003). The laws exempted newly privatised firms from paying the consumption taxes on all intermediate goods. In order to encourage private investors to get involved in the privatisation process, these laws also included exemptions for paying income and production taxes (GBOT, 2004). This is in line with Kayizzi-Mugerwa (2002), who suggested that privatisation should be combined with setting up new legislations to increase the competition.

A number of specific expectations were formulated about the companies during the privatisation process. It was expected that the organisational chart would be adjusted before the sale, that management would be replaced before the sale, that the employee base would be reduced before the sale, that debt would be removed before the sale, and that new investments would be made before the sale (modernisation of technology).

It was found that in all cases the organisation chart was indeed changed. In all cases, the managerial group created a new holding structure that reflected the ownership and independence of their businesses. Each structure consisted of the general assembly, the board of directors, and three to five functional sections. The goal was to decentralise the

decision-making process and shift more responsibility to the managers. This is in line with the prediction of Zahra, Ireland, Cutierrez, and Hitt (2000) that privatisation is associated with less centralised decision-making.

Second, the top management was not really replaced in the case study companies. The senior managers at TCF were re-elected based on their working experience. The majority of the managers at IFPF and ACF were replaced as part of their restructuring prior to privatisation, but they were replaced by insiders who knew most of the production aspects but relatively little about the outside of the companies. Managers were not replaced at FFM. Not a single manager was brought in from the outside for any of the four case study companies. This is not in line with the expectation that was based upon the literature. This deviation might explain why the performance of the companies did not improve significantly with privatisation. After all, the same or similarly oriented managers were running the new firm although it needed to be managed with a different mindset and skills.

Third, employee reduction occurred, but it was not according to expectations. Based upon the literature review, it was expected that the SOEs had excess employees. This was true in three of the four case study companies. Due to the government policy of employment, a total of 111 excess employees were found in the three cases. It was further expected that this excess of employees would be dealt with before the company was sold. Although the number of employees was reduced in the case companies, this was not an explicit deliberate policy. Instead, it was the result of changing working conditions which led some employees to leave the organisation voluntarily. The government offered the options of a self-employment program, early retirement benefits, and the possibility to transfer to other state agencies. As a result, a total of 94 employees across the three cases voluntarily departed to join other state agencies. This is different from setting target employment levels, for example, and making sure that those levels would be reached by laying off people. These findings support the suggestion by Boycko, Shleifer, and Vishny (1996), who argued that SOEs are usually overstaffed for social and political reasons as well as pressure from labour unions. It is not in line with the argument from Nellis and Kikeri (1989), however, who suggested that the excess employee is best handled by the state prior to privatisation because the procedure that was followed did not effectively deal with the excess employee situation. The fact that employees became owners of the company complicated the matter of dealing with excess employees.

Fourth, debt was dealt with by the government before the sale according to expectations. The financial statements and the balance sheet were investigated in all cases in order to identify any prior obligations. It was found that a total of LD 975,464 ($799,560) of debts was held by the four cases. To clean up such debt and, thus, encourage private investors to participate in the privatisation, the debts were transferred to the DMF which settled them through negotiation with the creditors. This result is in line with Lopez-de-Silanes (1997), who argued that SOEs often face large financial costs or are in a state of bankruptcy.

However, it should be noted that for the first three case companies, the difference between the initial sales price and the final sales price was more than the debt that was handled. In other words, it appears as though the debt was taken care of, but the sales price increase more than the cleared debt.

It was expected that the government would make investments to modernise the technology of the companies before the sale. The findings indicate that there were no activities undertaken to make new investments in modernisation for any of the four companies. Instead, the government simplified the procedures to obtain loans for making such investments. The procedures included the reduction of tariffs, taxes and interest rates. The procedures also included the creation of the DMF, which sponsored the newly privatised firms to obtain additional needed capital. This is because the government wanted to avoid any delay in the process. Thus, the expectation did not reflect what happened in the Libyan situation. However the findings are in line with Kikeri, Nellis, and Shirley (1992), who argue that large new investments should be left to the private owners once a privatisation decision has been made.

Several expectations were formulated about the changes that would be made after the sale of the company, i.e. after the new owners took control. One was that incompetent managers would be replaced; second, the incentive policies would be changed; third, the organisation chart would be restructured; and lastly, the labour force would be reduced and the working contracts renegotiated.

Contrary to what was expected from the literature, the management was not replaced at ACF, TCF or IFPF. The managers who remained were insiders who largely suffered from a lack of marketing skills. Most of the top managers at FFM were replaced as part of the internal adjustment programs conducted by the new owners. However, they were replaced with insiders who knew most of the production aspects and relatively little about the outside. This is similar to the findings of Cuervo and Villalonga (2000). In several Eastern European countries, control was left in the hands of managers who were motivated to protect their own positions. This result suggests that if control remains in the hands of managers, they might be highly motivated to maintain and protect their own positions.

After privatisation, there was a general agreement that the employees in all four cases had better incentives to work more effectively. They were given full authority to deal with all activities within their respective areas. Dividing the net income into three pieces provided better financial incentives for the employees in three cases. However, it was observed that there was general growing disquiet among the employees at all four companies. This was due to the lack of performance improvement of the companies since privatisation. Also, the salary system remained unchanged in the case of FFM.

Contrary to expectations, there were no additional activities carried out in the four cases to adjust the organisational chart as part of the internal adjustment programs. Instead, the employees decided to keep the structures that were proposed in the privatisation process.

Lastly, following privatisation, a total of 97 employees from the four cases voluntarily departed to join other state agencies. They left either because of the change in the working contract or because their factory's performance had not improved since privatisation. These 97 were in addition to the 94 employees who left at an earlier stage in the process. Overall, the number of employees was reduced by 48 percent from 391 in 2001 to 205 in 2007. However, this was more the result of voluntary actions from employees rather than a deliberate strategy after the sale of the company to remove excess employees. It can be concluded that it confirms similar findings from D'Souza and Megginson (1999), who documented a significant decline in employment after privatisation, which contrasts with Megginson, Nash, and van Randenborgh, (1994) who reported increases in employment as a result of higher investment and efficiency after privatisation. The possible explanation for this difference might be the lack of investment and efficiency improvements after privatisation in the four cases as well as the reason behind the change in employee numbers, i.e. voluntary or forced reduction of labour force.

With regard to firm performance, it was expected that the firms would improve after privatisation. As was discussed in section 4.2, this was not realised. Findings related to profitability differ from the findings of Megginson, Nash, and van Randenborgh (1994), who documented significant improvements in profitability after privatisation as a result of turnover in directors, better incentives, and flexible financing opportunities. The possible explanation for the findings in the four case companies is that they had a lack of financing opportunities and skilled managers. The output across two cases of ACF and FFM generally increase after privatisation but not significantly, while it dropped at TCF. This contrasts with Boubkri and Cosset (1998), who documented a significant increase in the output of 79 newly privatised firms from 21 developing countries.

The measurement of two efficiency proxies, cases of ACF and FFM showed an increase as well, but not substantial, while it showed mixed results at TCF. This is in line with the findings of Boubkri, Cosset, and Guedhami (2005), who documented little improvement in the sales efficiency for their sample from Africa and Middle East.

Overall, the two cases for which data were presented showed that the profitability ratios, output, and operating efficiency after privatisation were higher than before privatisation but not substantial. These findings mean that the privatisation has little success to lead to improvements in most of the performance measures. The third case of TCF showed that the profitability ratios, output, and net income efficiency after privatisation were lower than before privatisation. These findings mean that the privatisation failed to lead to improvements in the performance of TCF. It therefore can be concluded that the analysis showed different results from expectations.

In the Libyan industry privatisation as executed does not lead to performance improvement. It depends also upon other, related, reform measures. The exclusion of the land from the transformation made it impossible for the companies to borrow money. In addition, the

employee buyout process excluded outsiders, essentially those people who could bring required marketing skills and capital. The companies were also challenged by government policies. When the country opened up to foreign competition, the four companies were unable to reorient their sales towards new market situation.

5.2.2 Reflections on the research model

In the study, a conceptual model was developed which explained the privatisation process with regard to steps and activities undertaken to privatise the SOEs and ultimately improve their performance. The model represented a combination of process and factor approaches. The design of this process model, which is in the form of a stage model, was intended to guide the research process about how privatisation, competition, and regulation are related. The combination with a factor approach was intended, at the same time, to develop a more comprehensive and clear insight into the influence of a number of factors, which potentially affect the process at each stage. The conceptual model was operationalised by breaking-down the steps of privatisation into a number of activities undertaken to complete the process. The research applied a program management and a micro-level approach as complementary approaches to assess the outcome of privatisation processes in Libya. The program design and management approach were used to measure how the program was conceived, planned, and executed. It was assessed by looking at the enterprise and market preparation as pre-privatisation requests. This approach, however, does not provide a full picture of privatisation and can even provide a misleading impression (White & Bhatia, 1998). For this reason a micro-level approach was chosen to compare the firms' performance over the three-years before privatisation and the three-years after privatisation. To measure the firms' performance, profitability, output, and operating efficiency were used. The availability of the conceptual research framework was considered very supporting as it guided the data collection.

5.3 Recommendations

Recommendations will be provided for the Libyan government (5.3.1), for the case study companies (5.3.2), and for further research (5.3.3).

5.3.1 Recommendations for the Libyan government

The privatisation process was implemented across all cases with the objective to improve their performance. To ensure this objective, the government was expected to facilitate the process of privatisation by creating market regulations to encourage efficiency and give investors a chance to earn a reasonable rate of return (Welch & Frémond, 1998). The regulations should also prohibit the critical aspects of the monopolist's activities (Guislain, 1992). The findings, however, show that the case firms encountered many challenges.

Government regulations concerning trade openness had significant adverse affects on their performance because they were not ready to deal with this new environment. The rapid opening to international competition flooded the country with products with better price/quality ratios. Thus, although market restructuring was part of the privatisation process, a government should consider the state of the industry before privatisation and whether those SOEs are internationally competitive. If not, as in these four cases, the government might consider opening the markets slowly so that the privatised companies can have time to adjust to their new environment.

It was also expected that the government would facilitate the process of privatisation by creating a conducive business environment, in particular with regard to financial markets and private banks. In the four cases, the government excluded the land from the transformation. This became a main barrier to obtaining additional capital. Not modernising the technology further weakened the performance of the case study companies. The technology could have been upgraded by the government before the sale of the company. Unfortunately, due to the land issue, the new owners were not able to invest in modern technologies. Hence they were stuck with outdated equipment. Modernisation was required so that production costs could be reduced and quality improved so that market share could be maintained. Thus, the government should be aware of the financial markets, the impact of privatisation and whether new owners have the ability to invest in newer technologies so that the companies can become competitive.

The Libyan government is officially in favour of employee buy-outs as a privatisation method. It gives employees the first option to buy the firm where they work. In three of the case companies, employees bought the firm but lacked both financial resources and marketing skills. This phenomenon can be applied to other firms sold to their employees. In order for employee buy-outs to be successful, three key conditions need to be met. First, the management must be capable of dealing with a market-driven economy instead of the regulated industry. Second, the company must have sufficient cash so that interest payments can be made. Third, the company needs to have a solid assets base so that additional finances can be secured.

5.3.2 Recommendations for the firms

The cases illustrated that the privatisation process put the companies in unsustainable positions. They had outdated machinery which required modernisation in order to be able to compete with international competitors, but financing was not available. They had top managers who were insiders who knew most of the production process aspects, but relatively little on how to operate in market economies. They had over-employment situations which were partly handled by employees who left because they did not want to become owners, but once owners were identified, dealing effectively with over-employment becomes an issue as it represents laying off owners. The most important lesson

for the firms/new owners is that buying the firm should not simply be done to hold on to a job as the job may be lost anyway, as the first case study showed. When employees are considering purchasing the firm, they need to estimate what changes are going to occur in the marketplace and whether the company is able to compete in that market-place, and whether it has sufficient resources to upgrade and innovate so that it can continue to operate in the marketplace.

5.3.3 Recommendations for further research

The research was carried out with the intention of developing a process framework to describe and explain the process of privatisation in an industrially developing country context. Based on this framework, further research can be conducted. For example, a survey approach could be developed to test whether the model applies in other situations. It can also be used to check if the indicated stages and factors also occur in other firms.

This research focused on the activities concerning the organisational restructuring. It placed less emphasis on assets valuation and the relationship to the firm's performance. During the field study, the respondents provided strong indications that the valuation activities were problematic. Further research should therefore take place with a specific focus on assets valuation and firm performance. This could also involve different ways of looking at the process of privatisation.

This research be extended by using the same methodological approach in other Libyan firms and sectors. As the results of this phase of privatisation process in Libya to a large extent has not achieved the desired results for the companies in the sector studied, it is worthwhile to establish whether in other sectors deviations from these findings occur.

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Appendices

Appendix A: The Libyan economic and financial indicators 1997-03

Table A1: The Libya basic economic and financial indicators 1997-2003
(Quota = SDR 1,123.7 million)
Population: 5.41 million (2001)
Per capita GDP: US$5,261 (2001)

	1997	1998	1999	2000	2001	2002/ *proj.*	2003/ *proj.*
1. National income and prices:	(annual percentage change, unless otherwise specified)						
Real GDP	**5.2**	**-3.6**	**0.7**	**2.3**	**0.5**	**-0.2**	**5.6**
GDP in billion of US$*	37.1	31.3	30.4	34.4	28.5	19.2	21.0
Real non-oil GDP	8.0	-5.3	2.6	3.1	2.5	2.9	2.7
The CPI	3.6	3.7	2.6	-2.9	-8.8	-9.8	2.8
2. Central government finances:	(In percent of GDP)						
Revenue	**35.6**	**34.8**	**39.8**	**42.1**	**44.1**	**46.7**	**50.2**
Of which: hydrocarbon	23.7	20.0	17.4	27.2	29.0	35.6	39.2
Expenditure	36.0	38.9	34.3	32.6	44.4	42.9	38.4
Of which: capital expenditure	7.6	6.2	8.3	10.3	10.5	13.7	13.5
Overall position (deficit -)	-0.4	-4.1	5.5	9.5	-0.3	3.9	11.8
Non- hydrocarbon balance (deficit-)	-23.0	-22.5	-11.9	-17.7	-29.3	-31.8	-27.4
3. Money and credit:	(Changes as a percentage of money stock at beginning of the year)						
Money and quasi-money	**3.4**	**6.7**	**5.8**	**1.9**	**20.5**	**5.3**	**-------**
Net credit to the government	-5.4	1.9	-7.3	-29.7	-1.9	-10.7	--------
Deposit rate (1-year deposits, %)	5.5	5.5	5.5	5.5	5.5	5.5	--------
4. Balance of payments:	(In billions of US dollars, unless otherwise indicated)						
Exports, f.o.b.	**9.9**	**6.0**	**7.2**	**12.1**	**9.0**	**8.3**	**9.6**
Of which: hydrocarbons	9.1	5.6	6.7	11.6	8.5	8.1	9.4
Imports, f.o.b.	7.2	5.6	4.7	4.1	5.3	7.4	6.3
Current account balance	1.9	-0.4	1.6	7.0	2.4	-0.2	1.6
(As percent of GDP)	5.1	-1.2	5.4	20.5	8.6	-1.2	7.6
Overall balance (deficit -)	0.4	-0.4	0.4	5.8	1.0	0.2	1.5
5. Reserves							
Gross official reserves	**7.6**	**6.7**	**6.7**	**12.0**	**14.2**	**13.7**	**15.2**
(In months of imports of GNFS)	7.8	8.5	14.1	27.2	25.6	18.7	23.6
6. Exchange rate							
Official exchange rate (LD/US$, period average)	**0.4**	**0.4**	**0.5**	**0.5**	**0.6**	**1.3**	**--------**
Official exchange rate (LD/US$ end of period)	0.4	0.5	0.5	0.5	0.7	1.2	-------
Special market rate (LD/US$ end of period)**	2.2	3.3	1.9	1.9	1.6	-------	-------
Spread = special rate/official rate (LD/US$ end of period)	5.7	7.4	4.1	3.5	2.4	--------	--------
7. The Libyan crude oil export unit value							
(US$ per billions of barrels)	**19.0**	**12.9**	**17.9**	**28.0**	**24.1**	**24.4**	**25.9**

Sources: IMF country report no. 03/327, 2003. The Libyan authorities and IMF staff estimates and projections.
* At the official exchange rate prior to 2002. ** starting February 1999, parallel market rate legalised for some transactions and called the

“special” rate.

Table A2: Consumer Price Index (CPI)

Year	1999	2000	2001	2002	2003	2004	2005	2006	2007
CPI figure	100	97.1	88.5	79.8	78.1	75.6	77.9	83.5	89.9

The 1999 consumer prices were taken as a baseline (meaning set to 100%).

Source: Central Bank of Libya and the National Board for Information and Documentary

Appendix B: Laws issued to privatise the Libyan economy

Table B1: A list of laws concerning first privatisation experience, Tashrukiyya (1986-1989)

Laws No.	Issued by	Concerning
1/1986	BPCs	The contribution of all Libyans to the community wealth
219 & 225/1987	GP Committee	Privatising several light industries, agriculture projects, and marketing centres
183 & 214/1988	GP Committee	Privatising several light industries, agriculture projects, and marketing centres
427/1989	GP Committee	The creation of the relevant cabinet secretariats (ministries) and the provincial authorities

Table B2: A list of laws concerning second privatisation experience, Sharikah Musahima (1992-1997)

Laws No.	Issued by	Concerning
9/1992	BPCs	The principle of transferring the ownership of state firm to private sector
300/1993	GP Committee	The central committee for implementing the second privatisation experience
491/1993	GP Committee	The economic liberalisation and foreign capital investment
5/1997	GP Committee	Encouraged the foreign capital investment in the country

Table B3: A list of laws concerning last privatisation experience, Al tamleek (2000-2004)

Laws No.	Issued by	Concerning
198/2000	GP Committee	Created GBOT
15/2001	GP Committee	Created expert teams to evaluate the public firms
21/2001	GP Committee	Redefined the economic activities in Libya
72/2002	GP Committee	Decentralised the ministry of industry
1/2003	GP Committee	The beginning of recent privatisation program, Al tamleek
7/2003	GP Committee	Modified no. 5/1997, the change allowing co-investments between Libyan and foreign partners
31/2003	GP Committee	Named 360 public firms for privatisation
42/2003	GP Committee	Created MDF
92/2003	GP Committee	Created the higher committee
313/2003	GP Committee	Approved the recent privatisation program, Al tamleek
1/2004	GP Committee	Redefined legislation no. 21 of 2001
2/2004	CBL	Concerning the creation of the Libyan stock market
100/2004	GP Committee	Approved the preliminary privatisation value of 126 public firms
52/2005	GP Committee	Concerning the recent privatisation program, Al tamleek
134/2006		Created the Libyan stock market

Appendix C: Privatised Libyan industrial firms (2004)

This table lists 48 out of the 80 privatised industrial firms in Libya. The list is limited to firms that were privatised between August and December 2004 in order to have three years of post-privatisation data available.

A list of firms that were privatised between August and December 2004

	Company name	Privatisation date	Capital	Employee	Location
1	National-Public Beverage Company	11/08/2004	21,650,000	803	Banghazi
2	Biscuit and Sweets Factory, Zalitan	11/08/2004	490,000	103	Almirgab
3	Biscuit & Sweets Factory, Misuratah	11/08/2004	337,062	75	Misuratah
4	Alshafak Ship	11/08/2004	980,456	35	Alkms
5	Alnasim Ship	11/08/2004	947,767	37	Alkms
6	Alnajma Albida Ship	11/08/2004	1,004,973	36	Alkms
7	Alzrka Alyamama Ship	11/08/2004	923,250	33	Alkms
8	Tin Cans Factory	11/08/2004	1,026,302	91	Al jafara
9	Aluminium Factory, Alkoms	11/08/2004	117,856	40	Al mrgab
10	Tamato Paste Factory, Sebha	11/08/2004	248,312	7	Sebha
11	Fruit Factory, Darj	11/08/2004	106,882	8	Gadams
12	Chicken-Raising Factory, Darj	11/08/2004	235,886	5	Gadams
13	Chicken-Raising Factory, Wadialhya	11/08/2004	415,321	14	Wadi alhya
14	Welding Wire Factory	11/08/2004	19,952	10	Tajoura
15	Furniture Factory, Drna	30/08/2004	3,846,962	234	Darnah
16	Clothes Factory, Drna	30/08/2004	1,434,406	257	Darnah
17	Infant Food Processing Factory	30/08/2004	307,274	56	Al jafara
18	Fruit and Vegetables Factory	30/08/2004	1,312,532	108	Al jafara
19	Chicken-Raising Factory, Murzek	30/08/2004	449,567	2	Murzek
20	Detergent Factory, Aljofra	30/08/2004	48,228	16	Aljofra
21	Foodstuff Company, Almhary	12/10/2004	467,790	48	Tripoli
22	Alsawani Complex for Metal Works	12/10/2004	169,568	55	Tripoli
23	Tripoli Gas Factory	12/10/2004	167,575	38	Tripoli
24	Aluminum Complex, Tripoli	12/10/2004	57,493	98	Tripoli
25	Afella Fridge, Gargor region	12/10/2004	357,584	16	Tripoli
26	Candles and Chalk Factory	12/10/2004	78,018	41	Tripoli
27	Perfume and Fragrance Factory	12/10/2004	262,677	73	Tajoura
28	Chicken-Raising Factory, Misllatah	12/10/2004	502,255	11	Trhona
29	Textiles Factory, Misuratah	12/10/2004	3,165,134	271	Misuratah
30	Chicken-Raising Factory, Alzhra	12/10/2004	1,328,957	45	Al jafara
31	Aluminum Factory, Gryan	12/10/2004	17,048	37	Gryan
32	Misuratah Condiment factory	18/12/2004	487,051	14	Misuratah
33	Al garbiya for Tyres	18/12/2004	851,008	141	Tripoli
34	Khums Centre for Tire Services	18/12/2004	327,828	16	Al mrgab
35	Metal Works Complex	18/12/2004	328,982	73	Misuratah
36	Trailer Complex	18/12/2004	289,306	122	Tripoli

37	Fish Canning Factory	18/12/2004	342,425	36	Subrata
38	Bngazi Factory for Electrical Machinery	18/12/2004	3,624,417	57	Banghazi
39	Dates Syrup Factory, Khums	18/12/2004	308,650	75	Al mrgab
40	Al mansoura Condiment Factory	18/12/2004	598,139	76	Al jafara
41	Chicken-Raising Factory, Almarj	18/12/2004	264,143	5	Almarj
42	Textiles Factory, Khums	18/12/2004	27,053	15	Al mrgab
43	Furniture Factory, Misuratah	18/12/2004	2,820,302	107	Misurata
44	Fish Canning Factory, Banghazi	18/12/2004	28,064	114	Banghazi
45	Ain algazala Aquaculture Project	18/12/2004	217,721	14	Al btnan
46	Tobruk Fishing Boat Factory	18/12/2004	199,723	20	Al btnan
47	Detergent Factory, Drna	18/12/2004	364,975	8	Darnah
48	Wool Factory, Bani Walid	18/12/2004	9,062,950	369	Bani Walid

Appendix D: Distribution of persons interviewed, by job title

TCF interviewees	IFPF interviewees
The former general director The current general director The financial manager The production manager Informal conversations with several workers	The general director The financial manager The production manager Informal conversations with several workers

ACF interviewees	FFM interviewees
The general director The financial manager The administration manager Informal conversations with several workers	The general director The financial manager Commercial affairs department, manager Informal conversations with several workers

AFPC interviewees	The GBOT interviewees *(Privatisation agency)*
The former general director The financial manager	The manager of the ownership department The manager of following up department The manager of companies department

MWCM interviewees	TC interviewees
The general director The administration manager The financial manager	The general director The financial manager The administration manager

FVF interviewees	AT interviewees
The general director The administration manager	The general director The financial manager

FCF interviewees	TC interviewees
The general director The administration manager	The general director The administration manager

BSFM interviewees (Biscuit and Sweets Factory, Misuratah)	BSFZ interviewees (Biscuit and Sweets Factory, Zalitan)	PFF interviewees (Perfume and Fragrance Factory)
The general director	The security man	The general director

IRC interviewees *(*Industrial Research Centre*)*	IIC interviewees (Industrial Information Centre)
Industrial and technical projects dept director	The general director