

**Privatization Of Crown Corporations (CCs) And State-Owned Enterprises (SOEs)  
In Canada: Goals And Aspirations Of Government And Participating Businesses**

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## **PRIVATIZATION OF CROWN CORPORATIONS (CCs) AND STATE-OWNED ENTERPRISES (SOEs) IN CANADA: GOALS AND ASPIRATIONS**

### **Abstract**

Privatization of Crown Corporations (CC) and State-Owned Enterprises (SOEs) has become an important worldwide phenomenon. Over the last few years, CCs and SOEs have been privatized in both developed and developing countries. In Canada, privatization emerged in the 1970s; however, it became fully operational as a federal policy in the mid 1980s when a number of both federal and provincially owned corporations were sold to private companies. From 1985 to 2005, federal government has collected close to \$12 billion from the proceeds of privatization and more than \$1.5 billion in lease revenues from airport authorities. There has been a lot of discussion as to whether privatization has succeeded in meeting the goals and aspirations of the policy initiative as well as of participating businesses. In evaluating the program, the original objectives of privatization have been achieved and the goals and aspirations of both government and participation businesses have been met. However, these were not without some challenges. Some recommendations and solutions to these challenges, and how to make privatization policy more effective, have been made in the study which the writer believes will enhance the policy initiative in future privatizations of CCs and SOEs.

The study relied on exploratory, secondary, and primary sources data and information. Exploratory research took the form of casual discussions around privatization with professionals from the public and the private sectors to design a framework for the study. Secondary data was gained through a review existing literature. Primary data was mainly used to answer the research question by interviewing senior and middle managers of public-to-private companies, public institutions, and private companies were interviewed. It is hoped that the study will add to the existing knowledge on privatization of CCs and SOEs, as well as other forms that exist in public institutions, and local governments.

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## **Glossary**

BC	British Columbia
BCRIC	British Columbia Resource Inc
BOOT	Build, Own, Operate, and Transfer
CBC	Canadian Broadcasting Corporation
CBCA	Canada Business Corporation Act
CIBC	Canadian Imperial Bank of Commerce
CMHC	Canada Mortgage and Housing Corporation
CN	Canadian National Railway Company
CRRF	Canadian Race Relationships Foundation
CTC	Canadian Tourism Commission
CC	Crown Corporation
DCs	Developed Countries
ETR	Express Toll Route
FAA	Financial Administrative Act
GDP	Gross Domestic Product
GNP	Gross National Product
IMF	International Monetary Fund
LDCs	Less Developed Countries
NEP	National Energy Program
OECD	Organization for Economic Co-operation and Development
OPM	Office of Personnel Management
PCO	Privy Council Office
RAOIC	Regulatory Affairs and Orders in Council Secretariat
SAP	Structural Adjustment Program
SBDC	Brazilian System for the of Defense Competition
SOE	State-Owned Enterprise
UK	United Kingdom
UNBC	University Of Northern British Columbia
USA	United States of America
USEC	United States Enrichment Corporation

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## **CHAPTER ONE**

### **INTRODUCTION**

The material in this chapter is organized in four stages. The first stage discusses the role of the state in economic activities before the 1970s. The second stage examines the political and economic factors that resulted in the changing role of the state in economic activities after the 1970s. Stage three investigates CCs and SOEs in Canada. The last stage looks at the objective of the study, statement of the problem, limitations of the study, research methodology, and organization of the study.

#### **1.1 The Role of the State in Economic Activities before the 1970s**

Since the 1940s, the state has played an increasingly active role in the economic activity in Canada (Borins 1982). This role has been justified in part, on the grounds that the private sector or market forces alone cannot provide the needed financial investment for projects, and also be able to protect consumers from exploitation by monopolies and accelerate economic development (Pomfret 2000). This, therefore, had led to the expanding role of the state which has rarely been challenged. However, Pomfret (2000) states that there has been increasing recognition in recent years that even with good intentions, the state can fail. Bureaucracy and inefficiency in state institutions may not allow them to respond quickly and effectively to changes in technology and market forces. As a result, the role played by the state began to change after the 1970s due to a number of political and economic factors.

#### **1.2 The Changing Role of the State in Economic Activities after the 1970.**

In the 1970s, the role of the state in the economy changed drastically because of some economic and political factors. Economically, most world economies were not able to adjust to the external price situation, especially the first round of price increases that led to a significant deterioration in macroeconomic performance and standards of many countries (Hill 2000). As outlined by

Mansoor and Heming (1987), subsequent recovery after the oil crisis especially, was slow and part of it was to be blamed on a large public sector, which he argued, robbed the economy of the flexibility it needed to achieve the necessary adjustment.

During the late 1980s, and early 1990s, a wave of democratic revolutions swept across the world. Even though most of these revolutions were in Less Developed Countries (LDCs), it had various implications in the Developed Countries (DCs) as well. Firstly, totalitarian governments in many of these countries collapsed, and were replaced by democratically elected governments that were typically more committed to a free and open market economy than previous governments had been. Also, according to Hill (2000), there was strong and passionate shift from centrally planned economies toward a free market economy model. A product of the revolutionary changes was privatization or divestiture of CCs or SOEs.

In Western Europe, before the 1970s, basic industries such as energy, telecommunications, manufacturing, airlines, and railroads were often owned by the state, while many other sectors faced heavy state regulations (Hill 2000). However, many SOEs, were privatized and the restrictive regulations lifted in the early 1980s, allowing for much greater competition in sectors formally dominated by state owned monopolies (Hill 2000). For instance, Margaret Thatcher's conservative government privatized British Telecom (BT) in the 1980s (Hill 2000, Hrab 2004). In France, the government initiated a program which called for the privatization of twenty-one SOEs between 1994 and 2000 (Hrab 2004).

In the United States (US), privatization has mainly been seen as governments contracting out of local public services to private firms and providers. As stated by Lopez-de-Silanes et al. (1997), a



city or county government may sign contract with a private company to collect garbage, clean city parks and gardens, manage its hospitals, or parts of the hospital and ambulance services, take care of parts of its schools and airports, or even provide police and fire protection for the public. Even though providing public goods and services this way has increased tremendously over the last few decades, providing public services by local, municipal, provincial, or federal government employees still exist (Lopez-de-Silanes et al. 1997).

In Asia, private ownership has been allowed in some countries such as China and India in the 1980s which hitherto did not encourage free market system (Mansoor and Heming 1987). In China, the number of products allocated through central planning was drastically reduced from 200 to 20 in the 1980s (Lopez-de-Silanes et al. 1997, Hill 1997). Latin American countries like Chile and Mexico also moved towards free market economy and private ownership in the 1980s. According to Hill (1997), the Mexican government under Selinas privatized many SOEs and replaced many laws that were seen as disincentives to foreign direct investments. The late 1980s, and particularly the early 1990s, saw many African countries embarking on privatization (known in some African countries as divestiture) of SOEs simply because they were a drain on the economy (Shirley 1998, Young 1998).

Not surprisingly, in recent years, governments in many countries have adopted the policy of divestiture. Many countries now propose to realign the role of the state by increasing private ownership at the expense of public enterprise. These countries have identified the private sector as the engine of growth and economic development. According to Shirley (1998) and Young (1998), the value of divestiture worldwide in 1998 was \$145 billion which was 10% higher than the previous years figure. The world's largest sale occurred in Italy where the government sold 34.5

percent of Enel (Italy's largest power company) for \$14 billion (Shirley 1998). France has also earned about \$10 billion a year from privatization since 1997 (McFetridge 1997). Between 1988-1995, 88 developing countries sold \$135 billion of assets in 3,801 transactions (Young 1998).

Table 1 shows distribution of privatization in developing countries.

**Table 1: Privatization in Developing Countries by Regions (1988-1995)**

<b>Region</b>	<b>Amount (US\$)</b>	<b>%</b>
<b>Latin America &amp; the Caribbean</b>	<b>54 billion</b>	<b>40</b>
<b>East Asia</b>	<b>28 billion</b>	<b>21</b>
<b>Europe and Central Asia</b>	<b>20 billion</b>	<b>15</b>
<b>Other Developing Countries</b>	<b><u>33 billion</u></b>	<b><u>24</u></b>
<b>Total</b>	<b>135 billion</b>	<b>100</b>

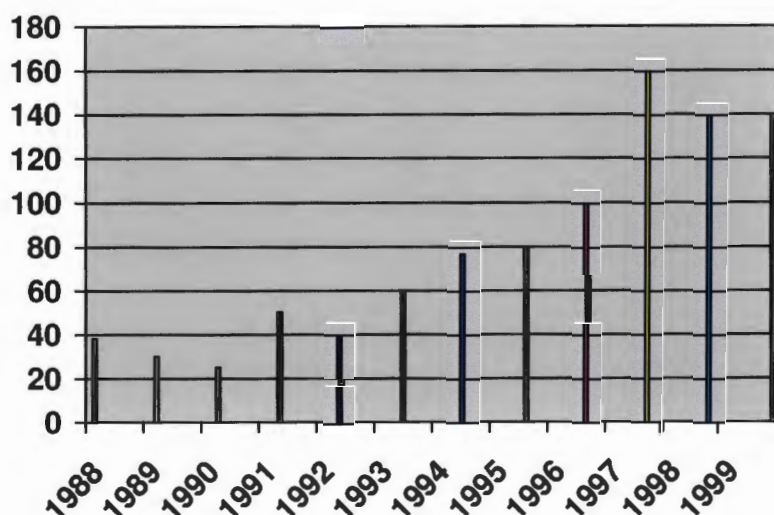
Source: Peter Young, 'The Lessons of Privatization' & Mary Shirley, 'Trends in Privatization'

As shown in Table 1, Latin American and the Caribbean countries raised the most amounts through privatization between the periods 1988 to 1995. Other developing countries, including African countries, also raised about 24 percent of the total amount between the same period with East Asia, and Europe and Central Asia following in that order.

Another report by Privatization International (2006) reveals that globally, privatization has increased since 1988. Particularly, privatization in developing countries has increased dramatically from 1990 to 2000. The report states that after reaching peak revenues in 1997, privatization transactions gradually slowed during the following two years. This was caused, partly by the East Asian and Russian economic crises and the completion of major elements of

Brazil's privatization program. Estimates suggest that privatization revenues for 2000 have again risen, reaching an amount close to the 1997 peak. Figure 1 shows Annual Privatization Revenues for Divesting Governments, 1988-1999

**Figure 1: Annual Privatization Revenues for Divesting Governments, 1988-1999, US\$ billions**



Source: Privatization International, as reported in Gibbon (1998, 2000).

As shown in Figure 1, privatization revenues increased steadily from about US\$39 billion to about US\$160 billion from 1988 to 1997 and declined to about US\$140 billion between 1998 and 1999. However, the period between 1996 and 1997 experienced a sharp increase from US\$100 billion to about US\$160 billion an increase of about 63 percent.

According to Ramanadham (1987), countries vary a great deal in the intensity with which they have privatized SOEs. There has not been any satisfactory explanation of why some countries have chosen to reform expeditiously while others lag; why some countries have chosen widely differing strategies; or why some reforms appear more beneficial to society than others.

A study by the World Bank Research Program (Ref. No. 678-6) argues that cross-country variations can be attributed to four factors:

1. Public enterprise reforms are likely to succeed in countries where public enterprise operations are small, or its recipients are identified and the potential losers from reforms are compensated. Labour is particularly important in this instance.
2. Successful public enterprise reforms are likely to be associated with increased competition especially in the market for goods and capital. Competition forces managers to behave efficiently. Well developed capital market may also facilitate the sale of shares on stock exchange and impose financial discipline on firms, public or private.
3. Successful reform is likely to follow when governments find ways to write, monitor, and enforce credible contracts in public enterprise management.
4. Public enterprise reform is likely to gain momentum in response to macroeconomic crisis. Appropriate and stable macroeconomic policy is likely to enhance the benefits from reforms thereafter.

Comparatively, Canada has been somewhat more successful than most developing countries due to stable macroeconomic environment, more developed capital markets, smaller SOE operations, and the political will to divest SOEs.

### **1.3 Privatization of CCs and SOEs in Canada**

In Canada, privatization of CCs and SOEs was first introduced as a federal policy in the 1985 budget speech under the Conservative government with Brian Mulroney as Prime Minister (Padova 2005). Also, the 1995 Budget Speech indicated that privatization was an ongoing priority for the Liberal government as well (Padova 2005). Since then, both federal and provincial

governments have engaged in extensive privatization initiatives. Local and municipal governments and other public institutions like universities, colleges, and hospitals seeking to reduce costs, increase services and services delivery have all given serious considerations to various kinds of privatization (Laux 1998). According to Padova (2005), by 1983 the net fixed assets of both federal and provincially owned enterprises was estimated to be approximately 26% in Canada.

The federal government was part, or total, owner of business goods offering services in fundamental and crucial sectors of the economy which included energy, communication, and transportation (Brook 1987). By 1991, when the special Office of Privatization and Regulatory Affairs was abolished, the program had radically and dramatically redefined the public sector in Canada (Laux 1998). Assets valued of over \$9 billion had been sold by the end of 1991. This represented about eight CCs and other government investments, and legislation authorizing the sale of others had been passed (Laux 1998).

McFetridge (1997) and Brook (1987) have summarized a number of privatization activities that took place between 1983 and 1997. They state that in all, about thirty-one complete and partial federal CC and mixed SOEs were privatized within this period. Some of the most significant initiatives that ushered in this reform occurred in 1987 with the sale of Teleglobe for \$610.9 million. It also included the sale in 1988-89 of Air Canada and the sale in 1995 of the Canadian National Railway Company which together generated about \$2.8 billion in revenue. As well, the federal government sold off Petro-Canada in the 1990s for \$2.5 billion. These privatization activities reduced the number of CCs and SOEs that the federal government owned and/or controlled from fifty-six to forty-seven between 1985 and 1997 (McFetridge 1997).

According to McFetridge (1997), some provinces have also carried out privatization activities since this policy avenue came into effect. Prominent among these included the 1998 sale of BC Hydro's mainland natural gas division for \$741 million and the Alberta government's decision to privatize the retail division of the liquor industry in 1994. Continuing further, he states that the Ontario government's decision to sell Highway 407 in 1998 for \$3.1 billion was also significant in the privatization history of Canada. Other significant privatization actions carried out at the provincial level included the sale in 1998 of the oil and gas assets of Saskatoon Power in Saskatchewan for \$325 million and the sale of Manitoba Telephone System for \$700 million in 1997. Also in 1992, the Nova Scotia Power Corporation was sold for \$851.4 million (McFetridge 1997).

#### **1.4. OBEJECTIVE OF THE STUDY**

Privatization emerged as a federal policy consideration in the mid 1980s for a number of reasons some of which include;

1. The level of deficits which puts the federal government under tremendous financial pressure to reduce expenditures, and
2. The market failures that justified government ownership had largely been corrected and/or the guiding public policy objectives had declined in importance (Padova 2005)
3. Development of private capital

While, continued government operation in accordance with commercial principles is an option, it may not be as efficient as transferring ownership or operation to the private sector (McFetridge 1997). It also increasingly recognized that the private sector could adhere more strictly to commercial principles than the government in the provision of services and infrastructure (Gray



2006). Since the government was involved in the provision of electricity, gasoline, rail, and air transportation, upon which much of the economy depends directly or indirectly, a lower cost of supplier of equal or greater quantities of goods and services in these sectors was expected to boost the economy on a much broader scale (Gray 2006, Padova 2005).

Twenty-one years after the start of the privatization initiative, there has been a lot of debate and discussion about the goals and objectives of the policy, and that of participating businesses.

Proponents of privatization believe that this initiative has achieved the purpose for which it was intended, whereas opponents argue the opposite. Yet still, others have questioned the very essence of putting public good in the hands of private companies.

The objectives of undertaking this study are:

1. To research into the concept of privatization as implemented by other countries,
2. To review various research work on privatization in order to assess their impact on the economies of countries implementing the program,
3. To research Canada's privatization program, especially to see whether privatization has achieved its purposes
4. To establish the key issues and challenges before, during, and after privatization,
5. To add to the existing knowledge on privatization.

### **1.5. STATEMENT OF THE PROBLEM**

For many years, both federal and provincial CCs and SOEs have dominated the Canadian economy. They played key roles in the provision of services and infrastructure such as electricity, gasoline, rail, air transportation, and communication. Recognizing the financial, managerial, and other problems that the CCs and SOEs placed on the public sector and the Government, in 1985,

Canada launched its privatization program through the 1985 Budget and subsequently created the special Office of Privatization and Regulatory Affairs as the implementing agent.

With all the privatization initiatives that have taken place since, and those that are about to take place, it is worth studying whether privatization has achieved its purpose. Therefore, the question that I hope to answer at the end of this study is:

“Does privatization meets the goals and aspirations of the privatization policy and participating businesses”?

### **1.6 LIMITATIONS OF THE STUDY**

A lot of researchers and policy analysts have written on the privatization program in Canada.

Unfortunately, most have not been able to link the goals and aspirations of the policy and that of participating businesses. Arguments for, and against, the privatization program have mostly been politically motivated. In this study, exploratory, secondary, and primary research was relied upon and specific issues were looked at with the view to establishing the goals and aspirations of the privatization policy and that of participating business. On the international front, most of the research, journal articles, policy papers, and books written on privatization in recent years often cite sources for 1993 even before, that are obviously not current. I was compelled to use them to make the study complete. However, these problems did not have much effect on the quality of the study. Also, the initial target sample size of 30 participants to be involved in the study did not materialize, as only 23 participants (with majority coming from the province of British Columbia) were surveyed. The study lacks depth because it did not cover the privatization activities of specific government or company. This could be a topic for future studies.

## **1.7 RESEARCH METHODOLOGY**

The study was done using exploratory, secondary, and primary data. Exploratory research was used to collect vital information for the study. This was done by talking to individuals in both the public and the private sector with sufficient knowledge and information on the subject matter. This was in a form of casual discussions and conversations designed to seek further knowledge and information for the study as well as a framework for the study.

Primary research in a form of a questionnaire was used to survey 23 senior and middle managers in public-to-private and private companies. These professionals were purposely selected to create a convenience sample for my study. The questionnaire used as the research instrument for the study comprised both close ended questions which followed a multiple choice pattern, where respondents chose from among the list of answers, and open ended questions, which allowed participants to provide further comments. My purpose in using this sampling strategy is to explore a breadth of experience and opinions about privatization. By selecting participants across a number of sectors, I recognize that only common experiences will be highlighted. Future research is needed to explore different experiences within each of these selected sectors. By selecting managers with privatized CCs, there is a potential that they will be biased in support of privatization. Interpretation of the interview results must be attributive to whether these managers present both positive and negative comments about the privatization process.

Secondary research was used to gather more information for the study. Sources of secondary data included scholarly and refereed articles, various journal articles, case studies, reports, publications, and government documents. The libraries, especially that of the Geoffrey Weller Library of the University of Northern British Columbia (UNBC), were also another rich source of information for my research. Another valuable source of secondary data used for this study was the Internet.

## **1.8. ORGANIZATION OF THE STUDY**

The study consists of five chapters. Chapter one consists of an introduction to the study, statement of the problem, limitations of the study, and research methodology. Chapter two includes a literature review on privatization, an outline of the various forms of privatization, public goods, and the distinction between public and private goods. Chapter three traces the history of CCs and SOEs in Canada, the rationale for CCs and SOEs, their role, and impact. Chapter four summarizes the findings of the study, analysis, and conclusion based on the research. The final Chapter (five) brings the study into perspective in the form of discussions and summarizes the entire project.

## **1.9 CONCLUSION**

This chapter gave a general introduction to the study and what to expect from the remaining chapters. It provided insight into the role of the state in economic activities before the 1970s and the changing role of the state after the 1970s. Global trends in privatization were discussed. There was a brief introduction of CCs and SOEs in Canada. The next chapter deals with various studies carried out on privatization of SOEs by researchers, financial analysts, academia, and economists.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 INTRODUCTION**

The main goal of this chapter is to provide a broad literature review on privatization. The chapter begins with an overview of definitions of privatization. It also takes brief stock of global trends in privatization. It then provides an overview of several forms of privatization. A discussion on the various arguments that have been proposed in favor of and those against, privatization is then presented. Finally, the chapter concludes with a brief introduction to the concept of public goods by illustrating the differences between public and private goods.

Privatization is a worldwide phenomenon (Charles Hill 2000). It has sometimes been used interchangeably with divestiture. In Developed Countries (DCs), the sale of (SOEs) is referred to as privatization. In developing or Less Developed Countries (LDCs), the sale of SOEs is more generally referred to as divestiture (Charles Hill 2000). Since the main focus of this project is on Canada, the preferred term will be 'privatization'. Privatization is a term that is employed to convey a variety of ideas. In the UK, the idea suggests 'denationalization' or the transferring of a public enterprise to private hands. In Canada, it is broadly seen as a "commercialization policy of government applying business-like approaches and allowing market forces, incentives, and mechanisms to affect the delivery of government services" (Padova 2005). According to Rammandham (1987) and Donahue (1989), the concept of privatization should be understood not merely in the structural sense of who owns an enterprise, but also in the substantive sense of how far the operators are brought within the discipline of market forces. More generally, McFetridge (1997) defines privatization as a broad policy impulse with the aim of changing the balance between public and private responsibility. Therefore, this process represents a direct shift in both

the micro and macro economy, from a more centrally planned system towards a more market-oriented system with the intension of promoting greater efficiency, among other things, in the operations of the enterprise. The term specifically refers to the sale to individuals and/or non-governmental enterprises of;

- assets or a line of business of government enterprise; or
- the government's interest in a mixed (partly private, partly government-owned) enterprise; or
- the government's equity in a government enterprise or Crown Corporations (CCs) or SOEs (McFetridge 1997).

Privatization may also be defined as the process by which the production of goods and services are removed from government sector of the economy. It is also one of the major mechanisms by which an 'overextended' state reduces its direct involvement in the economy (Rammandham 1987).

Privatization is a composite of policies, measures, and strategies. As a policy, it involves the state's withdrawal from direct intervention in the economy; as a measure it affects the transfer of assets or business activities embracing manufacturing, communication, agriculture, energy, transportation, selected public services, and utilities from the public sector to the private sector (Rammandham 1987, Savas 1987). As a strategy, it takes the form of a sale or transfer of ownership, sale of assets, leasing arrangements, contracting out, or liquidating enterprises in order to achieve a higher degree of efficiency and effectiveness (Rammandham 1987).



## **2.1 FORMS OF PRIVATIZATION**

Privatization covers many forms. This section provides a discussion on the various forms of privatization that have been employed and used by federal, provincial, and local governments as well as public institutions such as school districts, universities, colleges, and hospitals.

Governments and public institutions across Canada and around the world are looking for new ways to deliver public services at a lower cost to taxpayers and users. This is due in part to the struggle governments around the world face in providing more and better services to their citizens with limited budgets. Organizational innovation has necessarily come to the delivery of public services (Bettingnies and Ross 2004). Just like their private sector counterparts, public sector decision makers are now asking just what services they should provide themselves and which ones should they contract with private sector partners (Bettingnies and Ross 2004). This search for new methods for the production and delivery of public services has generated a range of forms of privatization.

### **2.2.1 Public-Private Partnerships (P3s)**

Public-Private Partnerships (P3s) use public funds to stimulate private sector investment (Savas 1987). According to Bettingnies and Ross (2004), there is no precise definition of the term and that it is used in slightly different ways by different people depending on the context and what is to be achieved. However, the British Columbia (BC) Ministry of Finance offers a straightforward definition as a contractual arrangement between government and a private party for the provision of assets and the delivery of service that have traditionally been provided by the public sector (Poschmann 2003). This definition clearly replaces the traditional public provision of goods and services by government. P3s are an initiative adopted by some governments to provide infrastructure and the delivery of services to its citizenry (Poschmann 2003). An example would be a public transportation system with buses owned and maintained by a private firm. In situations where the private sector does not have the necessary financial resources for large

capital projects and infrastructure like railways, highways, and sports centers, the best solution has been found in P3s (Poschmann 2003). Some countries have relied heavily on this approach to finance such projects. Recent high profile examples of P3s in Canada include the Confederation Bridge connecting New Brunswick and Prince Edward Island, completed in 1999; the 407 Express Toll Route (ETR) highway in Southern Ontario, first stage completed in 1998; and the Charleswood Bridge in Winnipeg, completed in 1995 (Bettingnies and Ross 2004). In most South East Asian countries, the construction of private toll roadways using 'Build, Own, Operate, and Transfer' (BOOT) schemes have greatly helped infrastructural development in those countries (Bettingnies and Ross 2004). Also in London, the government's decision to break the London Underground into separate public and private sector companies is an example of P3 scheme (Gaffney et al. 2000). This form of privatization has encouraged greater investment from private firms in this sector which otherwise would not have been possible under government. The major criticism of P3 proposals is that the private sector will recover its financing cost through charges it makes to consumers. This effectively means the cost of financing investment is transferred from the government to end-users because government leaves all aspects of financing to the private sector (Gaffney et al. 2000). This however, calls for regulatory bodies without which there is the danger of exploitation of consumers.

### **2.2.2 Cessation of Services**

In extreme cases, government may cease to provide a public service altogether. This is sometimes referred to as 'Load-Shedding', and may be brought on by fiscal crisis (Hebdon and Gunn 1994). According to Reed (1996), this has often led to the closure of some public institutions and enterprises such as schools, hospitals, and airports in some countries. In this case the consumer is responsible for deciding whether or not to make use of the service, the selection of the provider, and all payments for the service (Reed 1996, Hebdon and Gunn 1994).

### **2.2.3 Sale of Public Assets**

Another form of privatization is the complete or outright sale of public assets to the private sector.

As stated by Hebdon and Gunn (1994), this initiative generates a one-time lump-sum money transfer to a local, municipal, provincial, or federal government in lieu of any former income streams, and it also returns property to the tax roles. Some examples are hotels, airports, railways, and public housing (Hebdon and Gunn 1994, Reed 1996). This form of privatization is most common in LDCs where a number of public hotels, housing, schools, and airports have been sold to private firms as a means of raising the much-needed foreign capital necessary for economic development. Critics of this form of privatization have, however, argued that some public assets, such as parks or monuments have symbolic value impossible to measure in monetary terms. Therefore, such 'sacred places' best remain in the public domain (Rammandham 1987).

### **2.2.4 Contracting Out**

According to Hebdon and Gunn (1994), the most common form of privatization, especially in the U.S., is contracting out. This consists of the provision of public services or goods through the signing of contracts with private companies. It should be noted, however, that another form of privatization called outsourcing also generally falls under this category. In this situation, the government or provider of a particular service still maintains ultimate responsibility for the quality of service and its delivery, and therefore, initiates steps to monitor and oversee the process (Bettingnies and Ross 2004). Road construction and garbage collections are two common examples.

Under contracting out, the citizenry makes elected officials aware of a collective need such as collection of garbage, and then the government chooses via competitive bidding a private contractor to provide the service (Feigenbaum et al. 1998). Governments, however, remain ultimately responsible for service quality and delivery, and therefore, act as monitor and overseer of the process. For example, in Canada, most public institutions such as hospitals, schools, and

airports have contracted out janitorial services, food services, and security services. According to McFetridge (1997), contracting out should be clearly distinguished from P3s. Contractors are now not only building infrastructure but also designing, financing, and operating it. An example is the building and operation of prisons (Hebdon and Gunn 1994). Contracting for the supply of the complete package of services presents its own set of problems (McFetridge 1997, Hebdon and Gunn 1994). Critics of contracting out are the state, city, or institutions' employee unions which must contend with shrinking membership rolls, decreases in dues, and angry, dislocated members (Feigenbaum et al. 1998). Also, McFetridge (1997) argues that the problem of information asymmetries is particularly trouble-some in contracting out in certain areas such as delivery of various forms of social services.

## **2.3 CASE FOR PRIVATIZATION**

Although privatization is a global phenomenon, it has tended to be concentrated in three areas: developed countries, Latin American countries, and the transitional economies (former communist countries). According to Young and Shirley (1998), World Bank data shows that 88 countries sold US\$135 billion worth of assets in 3,801 transactions over the 1988-1995 periods. The value of the sale as a portion Gross Domestic Product (GDP) of the privatizing countries has remained fairly stable at about 0.5 percent from 1988 to 1995. Further, the Organization for Economic Co-operation and Development (OECD) Corporate Affairs (2000), states that in 1999 global privatization activity reached US\$145 billion, which is a 10 percent increase over the 1998 figure. The bulk of the privatization revenue were generated in the OECD countries, accounting for over US\$100 billion or 66 percent of global privatization revenue (OECD 2000). According to Reference For Business (2006), in the U.S. while much of the privatization has taken place at the state and local level, the federal government is also turning over some of its responsibilities and

operations to the private sector. In mid-summer of 1998, the U.S. government finalized the US\$2.4 billion privatization of the US Enrichment Corporation (USEC). The US federal government has recently also privatized the 750 former employees of its Office of Personnel Management (OPM) responsible for doing background checks on potential government employees (Reference for Business 2006). The above statistics demonstrate the important role privatization is playing in world economies. Table 2 shows amounts raised from privatization in various countries from 1990-1997.

**Table 2: Amounts Raised from Privatization, Various Countries, 1990-1997**

	1990	1991	1992	1993	1994	1995	1996e	1997e
<i>(Millions of current US dollars)</i>								
Australia	19	1,267	1,893	2,075	2,046	7,996	9,580	7,100
Austria	32	46	49	142	700	1,035	1,251	1,600
Belgium	—	—	—	956	549	2,681	1,221	900
Canada	1,504	808	1,249	755	490	3,303	1,762	2,000
Czech Republic	—	—	—	—	1,077	1,205	994	700
Denmark	644	—	—	116	2,815	12	382	100
Finland	—	—	—	229	1,166	363	911	100
France	—	—	—	12,160	5,479	4,136	5,099	5,300
Germany	—	325	—	435	240	—	13,273	2,600
Greece	—	—	—	—	—	—	529	1,500
Hungary	36	470	720	1,642	1,017	3,813	880	1,000
Iceland	—	—	21	10	2	6	—	—
Ireland	—	515	70	274	—	157	293	—
Italy	—	—	—	1,943	6,493	7,434	6,265	6,600
Japan	—	—	—	10,060	5,762	—	6,379	8,700
Korea (South)	—	—	—	817	2,435	480	1,849	1,700
Luxembourg	—	—	—	—	—	—	—	—
Mexico	3,124	10,754	6,866	2,503	766	170	72	1,900
Netherlands	699	179	17	780	3,766	3,993	1,239	600
New Zealand	3,895	17	967	630	29	264	1,839	—
Norway	—	—	—	287	118	510	660	200
Poland	62	336	240	734	642	1,516	495	3,500
Portugal	1,092	1,002	2,217	422	1,123	2,343	3,624	3,500
Spain	226	—	1,491	2,561	1,390	2,215	1,877	11,500
Sweden	—	—	378	252	2,313	852	785	1,100
Switzerland	—	—	—	—	—	—	—	—
Turkey	486	224	423	546	412	515	292	4,100
UK	12,906	21,825	604	6,523	1,341	6,691	6,695	3,300
United States	—	—	—	—	—	—	—	—
OECD total:	24,729	37,770	17,204	49,032	42,171	52,162	66,449	69,600

**Global total:** 29,803 48,183 37,049 73,008 60,282 77,220 87,929 99,600

**Notes:** Totals may not add due to rounding; 1996 data are preliminary, 1997 data are estimates

**Adapted from D.G.McFetridge: 1997**

As shown in Table 2, countries such as the UK, Canada, Mexico, Netherlands New Zealand, Turkey, Portugal, Hungary, Austria, and Australia each adopted a privatization policy early on and have raised significant amounts of money. Others like France, Japan, Germany, Spain, Italy, Norway, Sweden, and Belgium have also benefited from privatization. The table also shows a gradual increase in revenues in OECD countries from US\$24,729 billion to US\$69,600 billion between 1990 and 1997. Therefore, amounts raised globally as a result of privatization cannot be underestimated. As shown in the table, revenues accruing from privatization rose from US\$ 29,803 in 1990 to US\$99,600 by 1997. This highlights why privatization has assumed such an important role in world economies and the need for a careful study of this phenomenon. Proponents have put forward a number of propositions in support of privatization of CCs and SOEs. Some of these are discussed below;

### **2.3.1 Losses of State-Owned Enterprises**

It is argued that many SOEs have been making losses and that the privatization of these enterprises will lead to profit making (Rahman 2000, Kaur 2004). Financial statistics obtained from a cross section of public enterprises the world over lead many to such conclusion. Rahman (2000) indicates that a London based economic policy organization, the Adam Smith Institute, confirmed that privatized enterprises improve performances in terms of profitability, efficiency, and investment. According to Rahman (2000), a World Bank study on the performance of privatized companies in nine developing countries came out with even more supportive results. It observed that privatization creates opportunity for profitability, removes constraints on investments, and creates access to capital. Many international institutions such as the World Bank, International Monetary Fund, and major aid donors such as the US, France, Canada, and



Britain lend weight to arguments for the privatization of SOEs (Kaur 2004). Ramanadham (1987) further recounts how analysis of losses in CCs and SOEs in most countries reveals that inefficient enterprise managers who work for their own interests, government controls, and government interference cause losses. It is argued, therefore, that privatization or divestiture will remove these causes of losses and the enterprise will raise the much-needed revenue leading to profits (Ramanadham 1987).

Hrab (2004) has summarized a number of studies of privatization, some of which were undertaken by the World Bank. The analysis deals with privatization in both developing and developed, or OECD, countries where CCs and SOEs have been chronically unprofitable. According to Hrab (2004), the principal reasons for privatization are that evidence from a wide variety of countries shows that far too many CCs have been inefficient and have incurred heavy financial losses. Further, in many countries, public enterprises have become an unsustainable burden on budgets be it national, provincial, local, or municipal government, absorbing scarce public resources (Hrab 2004).

### **2.3.2 Reduce Public Sector Debt**

It is often argued that losses aggravate the problems of budget balance for the government because eventually the government has to finance these losses. In Bangladesh, the government continues to incur a loss of US\$56 million annually for subsidizing losses by SOEs (Rahman 2000 , Kaur 2004). To reduce the strain on the national budget, it is argued that privatization would be in the best interest of the government and the taxpayer in the long run. For example, by the accounts of World Bank (1997), the external debt for most Sub-Saharan African countries as a percentage of Gross National Product (GNP) more than doubled over the period 1980 to 1995. It increased from 30.6 percent to 81.3 percent. Similarly, debt as a percentage of exports increased

from 91.7 percent in 1980 to 241.3 percent in 1995. With substantial borrowing to finance government public sector enterprises, the size of the public debt increased dramatically in the 1980s and 1990s (World Bank 1997). Governments around the world have, therefore, turned to the use of privatization revenues to reduce debts. Also, these debts have been transferred to the private sector which has effectively lowered the amount of interest payable and also the public deficit. Therefore, many argue that privatization is a tool that not only improves debt structure by reducing public sector debt, but also is a solution to loss-making state enterprises.

### **2.3.3 Public Sector Borrowing Requirement**

Another argument for privatization is that it helps to reduce public sector borrowing. The government may wish not to increase its public debt through raising funds to finance its loss making SOEs. This was one of many reasons why British Airways and Air Canada were privatized (Eckel et al. 1997). If that is the case, the chances of public enterprises receiving the required funds from government are slim. Privatization will lead to private investors and lenders providing the much needed capital for investment (Savas 1987). One of the International Monetary Fund's (IMF's) conditions for assisting developing countries is for these countries to embark on privatization of loss making SOEs to reduce public sector financing (Ramandham 1998). Proponents have argued that high public borrowing to finance public enterprises leaves little room for private sector investments (Boycko et al. 1996, Eckel et al. 1997). Therefore, the less government borrows to finance public enterprises, the more credit banks have available to finance private sector enterprises.

### **2.3.4 Initial/Original Objectives of Public Enterprises**

Proponents of privatization also argue that in certain countries, the original objectives of the creation of SOEs have been achieved or that it is no longer necessary to pursue them; hence they may be privatized (Eckel et al. 1997). According to McFetridge (1997), Petro-Canada was

intended to engage in frontier oil and gas exploration and to be a window on the petroleum industry in Canada, which was subject to detailed government regulation under the federal National Energy Program (NEP). However, Petro-Canada lost that public policy function with the repeal of NEP. In Brazil, privatization is justified because while most of the CCs which were 40-50 years old had either achieved the original objectives for which they were set up or had outlived their usefulness (Salej 1998).

### **2.3.5 Reduce Government Intervention in the Running of Business**

Where a country has a large public sector, civil servants are constrained to expend a great deal of their time and energy dealing with their problems (Boubakri et al. 1998). The results are that civil servants' main responsibilities are not properly attended to and their involvement in private enterprise matters tends to be less competent. Privatization of public enterprise, it is argued, will minimize these problems and also reduce governments' intervention and interference in the running of businesses (Osborne and Gaebler 1992).

### **2.3.6 Widening Share Ownership**

Privatization has been duly credited with success in achieving wider share ownership. In the private sector, the objective of the firm is to maximize profit and, therefore, shareholders of private firms desire the value of their shares to be maximized. In the UK, individual shareholders have increased from 3 million in 1979 to 11 million in 1993 (Villalonga 2000, Boubakri et al. 2003, and Mochandreas 1997). However, the total shares held by individuals as opposed to institutions have fallen from 28 percent in 1979 to 20 percent by 1997 (Mochandreas 1997). Thus, ownership has become wider but not deeper, as a result of privatization. This is widely seen as a broadening of the investment opportunities of a country where a wider participation in the private sector is good for a free market system. Also, since the private sector is considered as the

engine of growth in most LDCs, widening share ownership will eventually translate into economic development.

### **2.3.7 External Pressures**

Most LDCs, particularly African countries, have adopted the privatization program to enhance their standing with external creditors (Ramanadham 1987). The World Bank, IMF, and other donor countries according to Ramanadham (1987) have made privatization of failing SOEs a necessary condition for continued support under the Structural Adjustment Program (SAP). Therefore, many African countries which were already reeling under heavy and continued financial burdens quickly signed up for the program (Kaur 2004).

### **2.3.8 Improve Efficiency**

It is also argued that privately owned companies operating in competitive markets and environments perform better than publicly owned companies. According to Hrab (2004) and Osborne and Gaebler (1992), a major reason why most private companies out perform CCs and SOEs is that there is greater discipline imposed on the management of private companies by shareholders, stockholders, and the capital markets. Additionally, the ability to monitor performance through market proxies such as profit and stock prices enables owners to structure compensation payments to employees based on outcomes in order to induce optimal effort and further align the interest of the principal and agent (Hrab 2004). The ability of private firms to be bought and sold provides incentives for efficient management. Osborne and Gaebler (1992) further states that, evidence of government inefficiencies have been well documented. It has been estimated that, in the early 1990s, inefficiencies in public sector monopolies in energy, road, water, and rail in developing countries generated losses of US\$55 billion a year (Hrab 2004).

## **2.4 CASE AGAINST PRIVATIZATION**

Critics have countered many of the arguments raised by the proponents of privatization.

Opponents of privatization argue that in assessing the profitability of SOEs, it is important to note that many of these public enterprises have not operated with a profit-maximizing objective (Rahman 2000). In the UK, SOEs were normally required to break even until the election of the Thatcher Government. Moreover, most SOEs were required to be socially responsible with objectives such as the creation and preservation of jobs, and the provision of unprofitable services that are inconsistent with profit maximization (Rahman 2000). In most cases a wide variety of SOEs were set up to provide services to help the country's poorer citizens. This was the case, when in 1997 US President Bill Clinton stopped Texas from turning over to Lockheed-Martin the procedure for deciding which applicants are eligible for Medicaid and food stamps (Reference for Business 2006). Some enterprises have been set to observe certain externalities. As outlined by Rahman (2000) and Ramandham (1998), the enterprise may have been set up by the government to undertake investments and operations in order to achieve certain national, provincial, or regional goals like regional development and employment creation. Profitability may not be the major objective for setting up the enterprise. Therefore, if financial consequences of such external impositions are not properly compensated for by the government, the enterprise will continue to make losses even when privatized. If the non-commercial objectives of setting up the enterprises are important, privatizing the enterprise shifts the losses to the private sector but does not eliminate them (Ramandham 1998). The government will be compelled to offer subsidies to private enterprises. However, the level of subsidies may be lower than pre-privatization because it is assumed that private firms achieve lower cost structures (Ramandham 1998).

Opponents also argue that while a reduction in debt is desirable for governments, a focus on debt reduction alone is irrational as basis for privatization (Marsh 1991). A reduction in debt achieved

by selling off viable income-generating assets will in the long run affect government revenue. According to Marsh (1991), privatization has been proved to be expensive if not handled with care. In the UK for example, by 1987 the cost of privatization to the government had been estimated to be between 600 million to 1,300 million pounds sterling (Marsh 1991). Privatization of state enterprises, therefore, may not have the desired impact on national debt if not handled with care. In some transitional and developing countries, proceeds are used to settle liabilities accrued before privatization. There is, therefore, little left to reduce government debt.

Furthermore, if public sector borrowing requirements are major arguments for privatization, critics argue that the government may restructure the enterprises to enable them go to capital markets to raise the necessary investment funds without privatizing them. Critics such as Ramandham (1998), say it does not make much difference in aggregate whether investments are undertaken in the public or private sector; once investment is deemed necessary for the economy on commercial or non-commercial grounds. According to Rahmandham (1998), it must be noted that the national pool of instable resources, foreign and direct investments aside, is given and that what is required is careful cost benefit analysis of investment projects. Rahmandham (1998), further indicates that it is only when a careful cost benefit analysis of projects is done that the argument for privatization gains in strength.

The argument that privatization will reduce government intervention in the running of business and the problems associated with it is also debatable. Ramandham (1998) argues that;

- the public enterprise can be structured in such ways as to minimize civil servant's involvement. The day-to-day running of the enterprise may be left in the hands of the

management of the enterprise while the sector minister is consulted on only broad policy objectives for the enterprise.

- privatization is often accompanied by the creation of regulatory bodies. In the UK, despite the government's declared intention to reduce market intervention, it has formed regulatory agencies such as Office of Gasline (OFGAS), Office of Telecommunications (OFTEL), and Office of Water (OFWAT) to regulate the operations of gas, telecommunications, and water respectively. Civil servants will still be involved even after privatization.

According to Rahmandham (1998), researchers and economists have documented and criticized the relationship that exists between civil servants (or ministers) and public enterprises. However, not much research has been carried out between civil servants and private enterprise in developing countries. Massive programs of privatization are likely to introduce a new dimension into this relationship.

Doubts have also been raised as to the impact of privatization on the pattern of share ownership since the widening of share ownership has not been followed by the deepening of ownership (Moschandreas 1997). Research shows that only a small portion of total shares are in the hands of individuals. In the UK, 54 percent of investors hold shares in only one company and only 17 percent hold shares in more than four companies. Moschandreas (1997) argues that wider ownership implies increased share dispersion, which weakens the effectiveness of the market in corporate control, and hence the argument that the capital market will contribute to the efficiency of divested companies does not hold.



Moreover, opponents have questioned whether management controls and incentives alone are enough to ensure efficient performance. Many researchers have attempted to analyze empirical evidence to evaluate the performance of newly privatized companies. Dewenter and Malatesta (1998 5) reviewed recent empirical evidence and concluded that “economic efficiency is compromised”. In their review, the performance of British Telecom was highlighted and the study showed that profitability increased but there was no evidence of improvement in efficiency. Evidence from the US also fails to confirm the view that public firms are less efficient (Vickers and Yarrow 1998). Also, according to Moschandreas (1997), most studies show that public utilities in the electricity industry have either lower unit costs than private owned firms or there is no significant difference between them. Therefore, the claim that privatization enhances efficiency is not generally supported by the evidence.

The above analysis clearly points to the fact that profitability and efficiency are two different measures of successes when it comes to public enterprises and, therefore, care must be taken not to use them interchangeably. It is possible for public enterprise to increase profitability without necessarily enhancing efficiency and vice versa as it all depends on the sector of operation of the enterprise.

## **2.5 Competition and Regulatory Requirement**

Most economists and researchers generally agree on the important role that competition plays in ensuring that enterprises operate efficiently. There is a general belief that the market discipline provided by competition between firms is conducive to an organization that is customer oriented, efficient, technologically superior, and better able and willing to adapt to change (Shleifer 1998). Competition between firms gives rise to enhanced product quality and innovations in production method. According to Hrab (2004), the end result of quality and price competition is an increase



in the welfare of the entire society through efficient allocation of scarce resources and an expansion in the output of goods or services. It is believed that privatization of SOEs will lead to this effect; however, this may not be the case in all economies. There are a lot of constraints that may prevent the introduction of competition in sectors where public enterprise operates, even where the enterprise is privatized (Hrab 2004).

Some SOEs have natural monopolies because they have high entry costs and they operate more economically (because of economies of scale) under a single supplier. Examples include gas, electricity, and water supply. Privatization of such state enterprises without any regulatory body will mean substituting a public monopoly by a private one (Hrab 2004). As outlined by Rahmandham (1998), it is the responsibility of the state to create an institutional and regulatory apparatus over competition in the privatized sector, especially the utilities sector. Privatized enterprises in the telecommunication, water, electricity, oil, and transport sectors are controlled or regulated by public regulatory agencies to ensure efficiency through competition. In Canada, for example, The Regulatory Affairs and Orders in Council Secretariat (RAOIC) of the Privy Council Office (PCO) is responsible for monitoring, coordinating, and advising on regulatory and Orders in Council issues and policies, and their consistency with economic, social, and federal-provincial policies (Auditor General's Report 2000). In British Columbia, the BC Utilities Commission is an independent regulatory body with the primary responsibility to regulate British Columbia's natural gas and electricity utilities (Fuller 2002). In the UK, agencies like the OFGAS, OFTEL, and OFWAT regulate the operations of the country's gas, telecommunications, and water companies respectively. In Brazil, the Brazilian System for Defense (SBDC) regulates the operations of utility services (Salej 1998).

In general, the regulatory agencies organize, supervise, and regulate the operations of services within their jurisdiction, as regards the aspect of competition, and look after questions of conduct (Salej 1998). The regulatory agencies ensure that necessary legislation is passed to forestall and check abuses of economic power by companies which can lead to the exploitation of consumers. The role of regulatory agencies after privatization is important if the country is not to be saddled with creation of oligopolies leading to exploitation of consumers in the end (Rahmandham 1998, Salej 1998).

While losses incurred by CCs and SOEs may be cited as one objective of privatization, the root causes of the losses should be investigated instead of the symptoms. In some cases, as suggested by Moschandreas (1997), restructuring the enterprise becomes a viable alternative where profitability becomes the main objective of SOE. Privatization proceeds may be used to reduce public sector borrowing but empirical evidence does not fully support this view. In most transitional economies and LDCs, SOEs have accumulated liabilities to such an extent that after payment of the liabilities little is left for the national budget (Rahmandham 1998, Rahman 2000). Most of the countries that have embarked on privatization activities have regulatory agencies that oversee the operations of privatized utility enterprises. Finally, most of the research work reviewed was in the early 1990s but the findings can be relied upon since SOEs operations have not changed (Rahmandham 1998).

## **2.6 PUBLIC GOODS**

The last part of this chapter focuses on public goods. The purpose is to establish a distinction between public and private goods. It also seeks to clarify as to whether CCs and SOEs deals with either pure public goods or otherwise. It begins with an introduction to public goods, followed by

what constitute a public good and a brief discussion on the nature of public goods. It ends with a discussion of the distinction between public and private goods.

It is well known that pure public goods are underprovided in static games with private, voluntary contributions (Sechrest 2003). As indicated by Sechrest (2003) and Kaul (2003), a public good can be provided by the government, in which case its level is determined by a political process. Therefore, it is usually common to model public provision using a median voter framework, in which the public goods are financed by either a proportional income tax or a head tax (Kaul 2003).

Conventionally, goods are said to be public if they are non-rival in consumption and or if their benefits/costs are nonexcludable (Kaul 2003). Most economists have defined pure public goods as one that can be consumed by more than one person, consume without paying, and there is no limit to the number that can be consumed (Bergstrom et al 1986). Public goods, therefore, have two characteristics:

- It is not practically possible to charge for the use of the good,
- The cost of the good is indivisible, so that its marginal cost is zero (Bergstrom et al 1986).

Kaul (2003) argues that, public nature of the goods means that there is no rivalry providing the good and also public goods do not have to be privately provided, therefore, provided by government. This is inline with the classical economists' definition of a public good which is one which everybody enjoys in common in the sense that each individual's consumption of such a good leads to no subtraction from any other individual's consumption of that good (Bergstrom et al 1986 ). However, according to some economists like Kaul (2003), the concept of public goods remains primarily the interests of a rarified circle of public economics/finance specialists and,

therefore, must try and adjust the concept so that it better reflects current conditions and fills the perceived conceptual void. He argues that as individual's well-being clearly depends on two types of goods which are private goods that are expected to be obtained through market, using one's own resources (if available); and that of public goods, i.e. the various things that we encounter or would like to see in the public domain, law and order, control of communicable diseases, or peace and security.

On the other hand private goods are those that have the following characteristics;

- Beneficiaries can be charged for their use of a private good without difficulty, and if they do not pay they can be prevented from enjoying any benefit,
- The marginal cost of the good is positive and at least as great as the average cost (Kaul 2003).

With private provision according to Kaul (2003), it is possible to sustain cooperation and provide the good to the public efficiently. With public provision, dynamic majority-rule solutions exist even when taxes are not restricted to be proportional to income; thus income redistribution can be jointly chosen with the level of public good.

As could be deduced from above, public and private goods are on two extreme ends of the spectrum. Therefore, the middle ground of the spectrum is the quasi-public goods. This is almost a public good but not quite, and shares the following characteristics:

- It is difficult or costly to charge the beneficiaries in some or all cases, but it is possible to charge at least some of them,
- The marginal cost of the good is less than the average cost - (i.e. economies of scale) but not zero (Lizzeri and Persico 2001).

Most economists believe that there seems to be many more quasi-public goods than public goods. Some examples of quasi-public goods include streets and highways, public health services, and broadcast television and radio with commercials. Therefore, in this report, quasi-public goods will be used in place of pure public goods.

From the above definitions and analysis, one may suggest that quasi-public goods are arguably best provided by government through CCs and SOEs, but not all and private goods best provided by the private sector. However, since this is not the purpose of the study, further discussion on this is not appropriate as there is a debatable boundary between the two.

## **2.7 Conclusion**

The chapter began with a general overview and discussion of privatization which included a brief review of global trends in privatization. It then provided an overview of the various forms of privatization. A discussion and analysis on proponents and opponents of privatization was also presented. The chapter concluded with a brief introduction to public goods and highlighted the difference between public and private goods. It also established that most CCs and SOEs provide quasi-public goods and not pure public goods.

Privatization is a world wide phenomenon and its recent growth as a policy alternative cannot be underestimated. The recent growth in the sales of previously SOEs and CCs to private investors in Africa, most OECD countries, Eastern Europe, Southeast Asia, Asia, the Pacific Rim, and South America marks a dramatic reversal in public policy concerning the state's participation in business on a worldwide scale. However, from the above it is clear that the impact of privatization on the economies of the world is less conclusive. Most privatization initiatives have multiple objectives which, therefore, make the task of evaluation difficult. The achievement of one objective may have a negative effect on another or may even depend on the fulfillment of other factors.

## **CHAPTER THREE**

### **3.0 PRIVATIZATION OF CCs AND SOEs IN CANADA**

#### **3.1 INTRODUCTION**

The purpose of this chapter is to understand the historical background of CCs in Canada, review the need for CCs, assess the performance of public-enterprises, and review the need for privatization in Canada. The chapter starts with a introduction of the economic history of Canada. It then discusses the historical background as well as rationale for setting up CCs and SOEs. The chapter closes with an examination of their incorporation, and performances as well.

Government wields pervasive economic power in Canada, which has been called a 'government-centered society' (Dewenter and Malatesta 1996). As of 1992, the Canadian federal government controlled about 202 companies, and was the nation's second largest owner of corporate assets, behind the Bronfman family. Borins (1982) observed that most of Canada's SOEs were created during, or just after World War II, and the recent privatization efforts in Canada begun dramatically in 1979. Even though the Conservative government led by Prime Minister Joe Clarke announced plans in 1979 to privatize Petro-Canada and at least five other SOEs, these plans were not materialized with the Liberal Party coming into office with a majority in parliament. As a result, effective privatization efforts did not resume until the Conservatives regained power in 1984 (Padova 2005).

According to Dewenter and Malatesta (1996), since 1985, the Canadian federal government has sold off full or partial interests in twenty-four SOEs. Provincial governments have also divested their interests in over thirty CCs since the privatization of the British Columbia Resource Investment Corporation (BCRIC) in 1979 (Borins 1982). In Canada, privatization has most often proceeded as an outright sale of SOEs to privately-owned companies.

Roussopoulos (1973) observed that the increasing role of government in managing the economy to provide the platform for stability, growth, and development of the corporate sector has resulted in an increasingly important role for public investment.

**Table 3. Relative Importance of Government Investment in Canada, 1926-1970**

<b>Year</b>	<b>% Public Investment</b>	<b>% Total Business Investment</b>
1926	13.1%	86.9%
1950	14.9	85.1
1955	16.6	83.4
1960	19.0	81.0
1965	17.2	82.8
1970	18.0	82.0

Source: Dimitrios I. Roussopoulos, 1973. *The Political Economy of the State*. ed 1973 Black Rose Books Ltd pp 32 33.

As shown in Table 3, the level of public investment as a long-run trend has increased from roughly 13% to 18% of all investments in Canada. This has been accompanied by a corresponding decrease in the level of business investment from nearly 87% to 82% of all investments. This shows that government played a significant role in the economic activities of Canada both before and after World War II.

The program of privatization in Canada has most often included restructuring institutions, diversifying institutions, balancing of budgets, liberalizing trade, and attracting direct private investments (Brooks 1987, Osborne and Gaebler 1992). One of the measures taken to reverse the economic decline was the restructuring of some CCs (Osborne and Gaebler 1992).

### **3.2 BRIEF ECONOMIC HISTORY OF CANADA**

Canada has comparatively well endowed natural and human resources. The natural resources include forest resources, oil and gas, a good supply of land suitable for crop and livestock production, marine and freshwater fish stock, minerals and others (Pomfret 2005). Even though most economic historians have described the Canadian economic history by region, the country is historically a single economic unit (Pomfret 2005).

Pomfret (2005) has briefly summarized the economic history of Canada from 1867. According to him, the fur trade had created a single transcontinental trade economy where labour and finance moved freely among regions. The improvement of transportation (especially railways) between 1867 and 1915, and the highway and pipeline systems after 1945, also helped the amount of economic goods across regions. The provinces became important markets and suppliers for one another, so that an investment boom in one region such as the Prairie West created a nationwide boom, while a slump in Ontario manufacturing became a nationwide slump (Boris 1982).

By the 1980s, most Canadians had become city dwellers and the majority of workers were in white-collar jobs, generally in the service-producing industries. Disparities in earning, living standards, ways of life had been much reduced, especially after 1945 as a result of the Second World War and the rebuilding of most countries. Nevertheless, the various regional economies were still very different. According to Pomfret (2005) and Boris (1982), manufacturing remained largely a matter of Ontario and Quebec, while the four western provinces still generated immense surpluses of natural products. In the Atlantic Provinces, living standards remained comparatively low and prospects were much less bright. Partly for this reason, interregional subsidies have become deeply entrenched in Canada's way of life.



### **3.3 HISTORICAL BACKGROUND OF CCs AND SOEs**

In Canada, SOEs are also referred to as CCs. Historically, Canada developed its public sector with the aim of complementing and meeting the needs of the private sector to make profit (Roussopoulos 1973). Roussopoulos (1973) and Kierens (1984), stresses that the public sector was developed to build the technical infrastructure (supportive services) for the private sector to generate investment and encourage profitable business activities and opportunities. Also, it was built to meet the social overhead costs of private profit-making production of goods and services.

Roussopoulos (1973), and Tuper and Doern (1988), have outlined the early CCs that ushered in the wave of other enterprises that followed later. The first CCs to operate in Canada was the Board of Works which was established in 1841 to develop a canal system in the Province of Canada in what is known today as Quebec and Ontario. Following Confederation in 1867, the first federal CC created was the Canadian National Railways Company (CN Rail). Also, Canada's Central Bank was initially established as a private company in 1934, but was subsequently nationalized in 1938. According to Borins (1982), after World War II a number of both federally and provincially created CCs have emerged from sectors such as transportation, to telecommunications, to natural resource enterprises, postal services, and real estate, and financial services. Federally, some of these enterprises include Canadian Broadcasting Corporation (CBC, Petro- Canada, Canada Post, Canada Mortgage and Housing Corporation (CMHC), and Bank of Canada and Air Canada. As well, the government owned coal and uranium mines and other financial institutions (Borins 1982). Tuper and Doern (1988) states that most provinces had been involved in the generation and transmission of electricity (utilities), the retail and sale of liquor, and the provision of financial services to farmers and small businesses. Also, telephone services in the Prairie Provinces, railways in BC, Alberta, and Ontario, steel mines in Quebec and Nova Scotia, automobile production in several provinces, and energy companies in most provinces were

publicly owned (Tuper and Doern 1988). Public ownership has also been very important in Canadian municipalities where it included the provision of urban transportation, water, electricity, and in few cases telephone services (Tuper and Doern 1988).

Political ownership has been very diverse. Policy makers and politicians of all political stripes such as Liberals, New Democrats, and Conservatives have all supported the creation of CCs at one time or another (Richardson 1990). Richardson (1990) further indicates that public enterprises had access to finance at government interest rates which were lower than even the most financially secured private firms, because the government cannot go bankrupt, which means less risk to the lender. Between 1985 and 2005, successive federal governments created 26 new CCs (Woodridge 1996). Several were incorporated as completely new organizations, such as the Canadian Tourism Commission (CTC), while others were previous subsidiaries of CCs.

According to Roussopoulos (1973) and Tuper and Doern (1988), although the election of the New Democratic Party in most provincial governments led to greater public ownership, Canadian governments did not resort to it out of political ideology. Public ownership which generally supplemented private enterprise and markets were used to promote economic growth and development. This was done through the provision of economic infrastructure, to achieve federal and provincial control over certain firms and industries, and to promote employment and national security (Keirens 1984).

### **3.4 THE RATIONAL FOR SETTING UP CCs AND SOEs**

Many general reasons have been given for creating CCs in Canada. Some of these can be summarized as:

1. to ensure the government controlling interest in the national economy,
2. to promote public entrepreneurship in areas where private capital was unavailable, or too risky for private entrepreneurs,
3. to offer competition to private enterprise, thereby ensuring the stabilization of prices,
4. to create employment opportunities for the workforce,
5. to ensure equitable distribution of development across the geographical and provincial territories of the country (Taylor et al. 1998).

Apart from these objectives, CCs in Canada were intended to operate as commercial entities and to generate revenues for the development of social services. As commercial entities, the state expected them to make reasonable financial returns on the investment, and to provide quality goods and services to the people at reasonable prices. They were also to ensure that their workers are regularly paid, and generally act as a focus for the development process by paying dividends and taxes to the government to support the national budget (Tuper and Doern 1988, Gray 2006). Historically, CCs some were also created to foster national unity and to develop and solidify the Canadian identity (Borins 1982). The idea of the nation building function was incorporated into the mandates of a number of SOEs, from cultural and communication organizations such as the CBC or Canadian Race Relationships Foundation (CRRF), to transportation and infrastructure corporations like CN or Via Rail (Tuper and Doern 1988). Others were created to preserve cultural uniqueness, unite and link geographically and socially disparate communities, and establish a degree of autonomy from American social and economic influence (Gray 2006).

According to Tuper and Doern (1988) and Taylor et al. (1998), CCs represent the most efficient and effective method for the delivery of goods and services in some situations. Methods that involved large quantities of commercial transactions or were considered mandatory, such as automobile insurance may be delivered most efficiently by publicly owned corporations (Tuper and Doern 1988, Taylor et al. 1998). The idea was that a profitably publicly owned industry contributes its profits directly to the wealth of the whole country, province, or territory rather than to the wealth of a subset of its population.

In addition, public ownership through CCs was often used as a regulatory tool (Borins 1982). Public ownership helped government to manage natural monopolies where a single company was the only supplier of a certain product or service due to the structure of the industry. Moreover, public corporations were used to regulate sensitive industries such as the nuclear energy sector, where national security and safety were primary considerations, for example, the Atomic Energy of Canada Limited (Taylor et al. 1998). During incorporation, a number of CCs were tasked with the mandate of fostering economic development, at both domestic and international levels. Other rationales for CCs were to facilitate research and development, create jobs, and develop markets for goods and services (Taylor et al. 1998, Tuper and Doern 1988). Defense Construction Limited was a good example of a public enterprise that engaged in research and development and the promotion of a specialized industrial sector. Others such as the Export Development Canada (EDC) provided services and financing to help businesses export Canadian products around the world.

The reasons for establishing these CCs were laudable and generally should have propelled the economy to take off. Unfortunately, objectives were not always achieved and this prompted the

issue of public sector reforms leading to the policy supporting privatization as a solution to the failing CCs, and other public institutions.

### **3.5 INCORPORATION**

CCs are distinct legal entities established as arm's length corporate entities to pursue public policy and commercial objectives by the government (Gray 2006). According to Gray (2006), CCs are established by a special Act of Parliament or by articles of incorporation under the Canada Business Corporation Act to assist the government in its responsibilities to the Canadian people (Gray 2006). The enabling legislation sets out the corporation's mandate, powers, and objectives.

The legislative framework for the governance and accountability regime of most federal SOEs are set out in Part X of the Financial Administrative Act (FAA) (Auditor General Report 2000).

According to Gray (2006), some CCs operate at a greater distance from the government. For these, the governance and accountability regime is set out in their enabling legislation. In addition to legislative requirements, governance principles and practices for SOEs are also contained in various other government documents such as governance policies, guidelines, and practices issued by the Treasury Board Secretariat, the Department of Finance, and the Privy Council Office. The Auditor General indicates in its Report (2000) that although the 1951 FAA declared that SOEs are ultimately accountable through a minister, to parliament, for the conduct of their affairs, they are not subject to budgetary systems or direct control of a minister in the same way as government departments.

### **3.6 PERFORMANCE OF CCs AND SOEs**

Most CCs were expected to operate to provide essential services to Canadians and produce profits that would then be ploughed back by governments into development projects. However, with the economic downturn in the 1970s and 80s, and the pressures resulting from the advent of globalization, poor financial performance has characterized many SOEs in Canada (Gray 2006). Some of these corporations have accumulated staggering burden of subsidies for government. For example, CN's annual capital requirement by 1986 was neighboring \$500 million and its profits had never come close this figure (Tuper and Doern 1988). Poor performance of SOEs and CCs means lower levels of activity and employment. Additionally, most CCs and SOEs have become significant burdens on both federal and provincial governments in terms of financing activities (Tuper and Doern 1988, Taylor et al. 1998)). The fiscal deficits of provincial governments in particular rose to an all time high during the early parts of 1990. As a result of this, total financing requirements rose from \$4 million in 1988 to \$12 billion in 1990 and nearly \$30 billion in 1992 (Woodridge 1996). Woodridge (1996) further indicates that the financing requirements of SOEs and CCs, which accounted for nearly half of the total provincial requirements in most years during the 1980s, have been eclipsed by the combined budgetary deficits of provincial governments since 1991. Over the period spanning 1991-1995, the financing needs of CCs accounted for less than one-quarter of provincial budgets (Woodridge 1996). The above examples show that SOEs and CCs have not performed well and therefore, the need for public sector reforms.



### **3.7 CAUSES OF POOR PERFORMANCE OF CCs AND SOEs**

The following are some contributory factors of the poor performance of SOEs in Canada.

- i. Decision-making at times are paralyzed by excessive bureaucracy and a laissez-faire attitude towards business,
- ii. Constraints attributable to inadequacies, inconsistencies, and lack of clarity of government policies in the SOEs sector,
- iii. Absence of commitment and entrepreneurial direction that private investors bring to business,
- iv. To some extent, frequent changes of top management personnel resulted in instability and deviations in pursuit of enterprise objectives,
- v. Lack of adequate managerial skills,
- vi. Excessive political interferences (especially ministerial) in the day-to-day operations of the enterprises,
- vii. Lack of adequate incentives to stimulate higher performance and productivity,
- viii. Ineffective monitoring and evaluation of enterprise performance,
- ix. Stifling of entrepreneurship arising from excessive government regulation, or controls, as well as protectionism in the form of subsidies and government guarantees for loans, and
- x. Adoption of poor and outmoded accounting and financial systems (Gray 2000, Auditor General Report 1993, 2000, Woodridge 1996, Osborne and Gaebler 1992).

It is interesting to note that while many economists and government officials were aware of the problems inhibiting the smooth operations of CCs at one time or another, no action was taken to rectify them (Tuper and Doern 1988, Taylor et al. 1998). Firstly, most past governments did not have the political will to incur the wrath of Canadians (the electorate)



through loss of jobs in the CCs and SOEs. Secondly, due to different political ideologies and idiosyncrasies, past governments preferred not to deal with it at all rather than deal with it and fail (Woodridge 1996).

### **3.8 Conclusion**

The chapter began with a brief introduction to public sector in Canada. It then proceeded with a sketch of the economic history of Canada. A historical background of SOEs and CCs as well as rationales for setting them up was discussed. The chapter continued with the incorporation of SOEs. Highlights of the performances of SOEs and CCs were presented.

CCs and SOEs have had a storied history in Canada. Past governments had reasons for establishing public enterprises. Poor performances have also been highlighted as well as the various diverse factors that worked against the satisfactory performance. The next chapter will critically analyze the findings of the study which will help answer the research question stated in Chapter One.



## **CHAPTER 4**

### **SUMMARY OF STUDY**

#### **4.0 INTRODUCTION**

The main purpose of this project was to research whether privatization has met the goals and aspirations of the privatization policy and of the participating businesses as outlined in Chapter One. Therefore, after a review of the current literature, a survey was undertaken to collect primary data to help answer the research question. This chapter, therefore, summarizes the findings and conclusions of the survey. People who participated in the survey were senior to middle managers from public-to-private and private companies. The chapter is arranged in four main parts. The first section describes the participant sample. The second section reviews responses on pre-privatizations issues, challenges, anticipated benefits, and costs. The third section discusses issues and challenges during the privatization process. The fourth section looks at results, or post privatization, as well as some closing comments from participants. The chapter concludes with some recommendations on privatization and its implementation. It was necessary to talk to these middle managers since most of them are functional or line managers who are at the forefront of any major policy/strategy implementation and would therefore be in a position to offer credible and candid experiences of privatization exercise. Also, in some cases, most senior managers are quite removed from the day-to-day activities/operations of the corporation and are mostly involved in policy formulation and therefore might not be able to offer the same depth of information that a middle manager will offer.

## **4.1 SECTION ONE**

### **4.1.1 Background Information on the survey Sample**

This section provides a brief review of the survey respondents. The total number of respondents for this study was 23 people which represent an approximate response rate of 77% of an initial desired sample size of 30. In terms of gender, about 83% of respondents were males, while nearly 17% were females. Most of the male respondents were found in corporations where as their female counterparts were in public institutions.

Most of the people who responded were senior managers representing about 58% in terms of employment status with an average length of service of 14.04 years. Length of time employed in a single company is a good indicator as this means that the respondent has a very good understanding of the privatization program. In other words, it shows that these managers have been around from the beginning when government started the privatization program and have, therefore, witnessed first hand most of the major transformations and changes within their own companies. Most of these managers are those likely to have survived a privatization initiative at one time or another in their employment.

## **4.2.0 SECTION TWO**

### **4.2.1 Pre-privatization**

The focus of this section is to identify some of the reasons that have culminated in the need for privatization of CC and SOEs as well as why some public institutions have turned to other forms of privatization as the solution to most of the problems outlined in the literature review. The survey asked managers a number of questions relating to pre-privatization. The main themes included; key issues and discussions before privatization, anticipated benefits and challenges,

performance, service delivery, government borrowing/funding, and the level of government influence before privatization.

In terms of how their companies or portions of their companies were privatized, the results were different depending on their status/origin or jurisdiction. For federal and most provincial CCs and SOEs, the majority of respondents indicated a sale of public assets as the main form of privatization. For local governments and public institutions, privatization took the form of either P3 or contracting out. This corroborates with the results from their private counterparts most of whom identified contracting out and P3 as the most common forms of privatization they are familiar with.

When respondents were asked to indicate some of the key issues discussed before privatization, 67% of respondents from the public-to-private sector identified inefficient delivery of services as the main focus around privatization, while 82% from the private sector identified a similar response. Respondents in the private sector were more vocal on this issue. One respondent from the private sector commented “the issue of service delivery has been their main drawback, and even when they are able to deliver the service, it is at a huge cost”. For public institutions and local governments, the situation is similar. As one manager responded “for us, we are not in the food or parking businesses and, therefore, those are not our core business and so one key issue that was carefully and thoroughly discussed was service delivery in these areas before privatization. The issue was to consider how to deliver both services efficiently and at a low cost to clients and whether it made business sense to operate it in-house or privatized those portions to companies who specialize in these areas”.

The second prominent issue according to respondents from both sectors was reducing the economic role of the government and decline in profitability. On the issue of the economic role of government, most respondents in the private sector felt that government has no business in the running of business by playing the 'big brother' role and, therefore, advocated for private sector participation.

On the issue of performance, 50% of the respondents from the public-to-private sector felt that their companies were fairly performing before privatization, while two-thirds of their counterparts in the private sector identified underperformance as one of the problems of CCs and SOEs. According to respondents from the public-to-private sector, even those CCs and SOEs that performed creditably before privatization did so at a very high cost simply because it was a government corporation and, therefore, people should have access to goods and services no matter the cost.

With regards to the issue of effectiveness of service delivery, the majority of the respondents (67%) from the public-to-private sector reported that service delivery was only fairly effective. This is not surprising as about 87% of the respondents in the private sector felt that inefficient delivery for service by most CCs and SOEs was something that both government and businesses needed to look at before embarking on a privatization initiative. This clearly shows that service delivery was one of the major problems facing CCs and SOEs and explains why it became one of the topical issues discussed around privatization. As one respondent puts it; "the structures that exist in most CCs and SOEs did not encourage fast and efficient delivery of services let alone high performance".

On the issue of government borrowing or funding, 50% of the respondents from the public-to-private sector reported that 100% of their budget solely depended on government borrowing or similar funding before privatization. Most respondents in the private sector felt privatization was needed to cut the 'umbilical cord' of most of the CCs and SOEs from the government as part of addressing government budget deficits. Respondents also alluded to the fact that by privatizing these CCs and SOEs, they would be able to go to the capital markets to borrow money just like any other company.

The study also revealed a high level of government influence in running CCs and SOEs. Indeed, all respondents reported government influence before privatization. Respondents identified various government influences such as political appointments of senior management or frequent changes in policies due to change in political leadership. One respondent from the public-to-private sector said "since our budget depended on government borrowing, our hands are most often tied when it comes to making strategic and other major decisions". Another respondent noted "we didn't even prepare our own budgets as it comes directly from government which made it difficult for us as the government did not understand the realities on the ground".

When respondents from both sectors were asked about the anticipated benefits hoping to be derived as a result of privatization, they were unanimous in most of their responses. The responses can be summarized as including:

- Fast and efficient delivery of services at a lower cost,
- Ability to become a market driven enterprise,
- Achieve economies of scale and scope,
- Ability to pursue strategic long-term policies,



- Perform at a high level much like their private counterparts, and
- Ability to become self-sustained and compete in the marketplace.

Across the evaluative variables, most respondents in the private sector felt that privatization was needed to level the playing field since they unfairly compete against the CCs and SOEs for labour, customers, and profits in the marketplace. It is, however, interesting to also note that some of their public-to-private counterparts also favoured privatization as a way for them to become independent from government and operate more like a business entity. The above shows that most CCs and SOEs clearly desired to operate more like their private counterparts and, therefore, privatization offers that opportunity.

On the issue of anticipated challenges that lie ahead for CCs and SOEs after privatization, respondents agreed that there exist a number challenges. Some of these challenges were immediate and direct, while others were remote and indirect. Below are some of the main challenges according to respondents:

- Sustainability,
- Competition for skilled labour,
- Human resource and labour union challenges,
- Scope of growth of the privatized company,
- Revenue generation,
- Consumer satisfaction versus shareholder confidants,
- Public perception, and
- Changes in organizational culture.

Most respondents from the private sector were, however, quick to add that these are the same challenges they face everyday but will be somehow difficult for most public-to-private companies coming to a new set up where speed and agility is the order of the day.

### **4.3.0 SECTION THREE**

#### **4.3.1 Privatization Process**

This section focuses on activities during the privatization process of public-to-private companies.

A number of questions were asked concerning the negotiation process of transferring from CCs or SOEs to a private company. According to most of the respondents from the public-to-private sector who have gone through the process, the challenges are enormous. Below is a summary of some of their responses:

- Uncertainty of the new business model - from government/traditional to a more business-like model,
- Employee morale and attitude during the process,
- Tense corporate environment
- Reduction of cost and cost-cutting,
- Public expectations of the new business, and
- Labour union challenges especially collective bargaining and jurisdictional of the existing union in the new structure.

One manager said “For me one of the challenges during the negotiations was that I did not know where I fit anymore, because there were a lot of differences in opinions on what government thought was a fair deal and what the buyer was willing to pay so I did not know which way to bargain”. Another manager also commented: “my job during the process was to evaluate and review all jobs and decide which jobs needed to remain and which ones should be cut under the

new business model. And to add to that, I had no clue what the new business will be until the very end of the process”.

As to which key areas received the most attention during the privatization process, respondents identified the following;

- Regulatory areas and setting up the rules of the new business entity,
- Relationship with government, and
- Human resource and labour unions - mainly union workers and their fit in the general scheme of things as well as its classification.

This is in sharp contrast to responses from the private sector. They felt, as taxpayers, high on the agenda should be issues of inefficient services delivery, issues of competition, revenue generation, profitability, acceptable standard of services delivery, and accountability. So, where as respondents from the public-to-private sector were focusing mostly on internal issues, their private counterparts were much more interested in the external issues from the view points of a taxpayer and as a consumer.

Overall, 42% of respondents rated the privatization process as consuming and challenging, but at the same time friendly. According to respondents the process was consuming and challenging in the sense that most of the negotiations took a lot of their time with some dragging on for long periods of time. Also, for others, it was challenging having to deal with a whole new set of metrics they were not used to, and most importantly being able to bargain with people from the private sector who are more knowledgeable and familiar with the process of valuing businesses. But with all these challenges, respondents said the privatization process was friendly as both parties co-existed peacefully with no animosity or untoward behavior against each other and, therefore, considered the process as fair and friendly. However, some also had their reservations on the manner in which some privatizations were hurriedly done. One manager commented “we

had to meet all night to strike a deal because the government was in a hurry to make the transfer as it was close to elections and government needed cash as well as score some political points with the deal. As a result, there was no due diligence in finding the right buyer and no far reaching discussions held so now we are paying for all these mishaps or missed steps after privatization”.

#### **4.4.0 SECTION FOUR**

##### **4.4.1 Post-Privatization (results)**

This section examines the successes of privatization as a government policy against the situation before privatization. In other words, the purpose of this section of the survey is to help answer the research question. Some of the variables used in this section include, performance, service delivery, efficiencies, government borrowing, government influence, market driven policies, and finances.

In terms of the level of performance, 67% of respondents from the public-to-private sector said that their companies are well performing after privatization. This is in sharp contrast to the situation before privatization where most participants responded that their companies were only fairly performing. This sends a clear message that privatization as a policy was needed to move these corporations from a level of low performance to a level of high performance, even though there is still room for improvement to reach the desired high performance position. For most respondents, especially from the public-to-private sector, where the mode of privatization was either a sale or lease of public assets, high performance was not achieved immediately after privatization but through a gradual process. This pre-supposes the existence of a transitional period where performance was below in the early years of privatization as the new company had

to adjust to the new business model and environment before experiencing high performance. One manager puts it this way: “we had to go through a huge learning curve as fast as possible where the whole company, from administration to operations and systems, had to be restructured and re-engineered to fit the new model. We were, therefore, under performing during these times but once the re-organizations and restructuring was completed, we were on a roll in terms of high performance”. Structural cost associated with privatization need to be recognized within the policy. Support for adjustments need to be part of the privatization process.

Yet again, some managers found themselves under difficult circumstances after privatization as there was no way they could perform until certain fundamental changes were made. As one manager puts it “the government left us with outmoded and obsolete equipment and infrastructure that needed to be updated and replaced without which we could not perform in the environment”. However, respondents from the local government and public institutions where the mode of privatization was contracting out or outsourcing, high performance was instant. For this group, there is no learning curve and, therefore, performance was immediate. One manager stated “All we had to do was tender that portion of our services and contracted the successful bidder to deliver the service. We did not have to restructure or reorganize the entire organization to achieve high performance”.

In terms of service delivery after privatization, 50% of the respondents reported that service delivery has become very effective. This shows a marked improvement from the period before privatization. Again most respondents from the public-private companies indicated that this was not immediate as in most instances services were interrupted frequently during the transitional period. According to respondents, the first few years after privatization were not the easiest as

most of them were going through labour strife with their unions in addition to the steep learning curve. In such circumstances, service delivery was greatly affected. However, after those initial setbacks were dealt with, things began to pick up and most of them are doing very well. For public institutions and local governments, the successes of service delivery after privatization was immediately realized since it was been delivered by companies who had expertise in those areas. However, some pointed out that success depended on how well the contract is managed. A manager commented: "In my office, I have employees whose sole responsibility is to manage these contracts to make sure that service delivery meets all the acceptable requirements and standards. That is why during the tendering process, we look for specific qualifications from bidders and so the lowest bidder in most cases is not always the successful bidder which is one reason service delivery is always high".

On the issue of government borrowing and funding, 50% of respondents reported that none of their budget depended on government borrowing or funding after privatization. This is not surprising as most of these corporations are able to pursue market driven policies to produce more goods and services to generate needed revenues and profits. Therefore, they have become more self sufficient and self sustain. One manager noted "when we were a CC, our hands were tied, as we did not have the mandate to raise money from anywhere, which directly reflected the level of services delivered and performance levels. But with our new dispensation, we are able to raise the much needed capital, broaden our services and pursue revenue generation ventures". Another, manager commented "access to capital has been our driving force as we no longer operate under tight budgets. We always knew we had a good product; it was a question of how to market it to raise revenues without government restrictions". This situation has also freed governments of the need to fund these corporations and is able to focus on managing the economy. From the private



sector, most respondents felt the new dispensation is the best solution for CCs and SOEs and that the playing field has been leveled. According to one manager, “the taxpayer is the ultimate winner in this situation as they (taxpayers) don’t have to fund these companies anymore. No wonder governments both federal and provincial have been posting budget surpluses year after year after the privatization program was initiated since these corporations are no longer a drain on national or provincial budgets”.

Even though government borrowing and funding of CCs and SOEs have been drastically reduced, 50% of respondents indicated continuing high levels of government influence. Respondents mostly from the public-to-private sector were, however, quick to qualify that the level of government influence that still exists after privatization is only in the area of regulations, especially where the corporation is involved in the business of natural or non-renewable resources. Therefore, issues which were previously reported as government influences such as appointments of senior management, strategic planning, decision-making, policies are now all the sole responsibilities of the individual companies after privatization. The new business entity is answerable to the shareholder and not the government as existed before privatization.

In terms of finances, 58% of the respondents reported that the financial situation of their companies has improved after privatization. According to respondents most of their corporations operated under tight budgetary constraints as most of them depended on government funding or borrowing. They were, therefore, not able to produce goods or deliver more services to generate enough revenue. According to one manager, “being classified or labeled as CC or SOE was an impediment or hampered our ability to raise the much needed capital either through the capital market or through revenue generation ventures. However, after privatization, we were able to



produce at a lower cost, raise capital as needed, and pursue market driven policies for the purpose of making profits which has greatly enhanced and improved our financial situation". Another manager recounted "we are now able to float shares to the public through the stock exchange and raise enough capital as well as form partnerships and strategic alliances to raise money as needed and when needed".

When respondents were asked about some of the key issues and challenges facing CCs and SOEs after privatization, 67% of respondents identified service delivery as the main issue. Most respondents in the private sector also identified human resources, labor unions, revenue generation, and the issue of public perception as important challenges. According to most respondents, the challenge is to find the acceptable level of service delivery since there is no benchmark against which to measure apart from the market. One manager commented that "the market is a good measure of service delivery, in that if you don't deliver customer satisfaction in the private sector, you will surely be out of business which is fine, but for us it will continue to be a challenge since we have never operated this way before". Respondents from the private sector are of the view that labour unions and revenue generation challenges will continue to haunt these companies. One respondent wondered how they will be able to get around the issue of labour unions as CCs and SOEs are where most of the powerful unions exist. Also, the issue of public acceptance is a challenge which is often overlooked. Some respondents view this as a long term challenge that most public-to-private companies' will have to face but which has received little or no attention during the privatization process. Respondents attributed this to the social dimensions of privatization. According to them, the public perceives anything privatized as a bad thing and, therefore, either fail to have any dealings with it or try promote it negatively in the public domain. Also, since most privatizations of CCs and SOEs have resulted in losses of jobs as a result of

labour cuts, labour unions leaders have had to battle new managements on all fronts from new collective bargaining to pay cuts. This phenomenon, according to respondents, will persist and remain a challenge for most privatized CCs and SOEs. One manager from a public institution said that “even after 10 years of contracting out a portion of our services, I’m still dealing with the anger and resentments from employees after a few people lost their jobs and some re-assigned new roles. It has almost become a personal matter between members of management and the union leaders”.

#### **4.4.1 Closing Comments**

The last section of the survey gave participants the opportunity to provide some general comments on privatization. It also afforded participants the opportunity to air their views in relation to privatization of CCs as a government policy and its application economic development.

Participants all agreed that privatization as a government policy has stimulated economic development in Canada. Some of the various ways in which privatization has led to economic development according to participants are summarized below:

- The creation of opportunities for greater and healthy competition in the market place,
- Shareholder profitability instead of taxpayer burdens,
- Privatization has led to local control and ownership,
- Responsiveness to regional and local needs,
- Regional economic activities have increased,
- Gains in efficiencies,
- Value added to some industries, and a
- Global perspective due in part to competition and globalization.

One manager commented “previously, our destiny year after year was decided from somewhere because our budget had always come from as far as Ottawa who have no clue what it is like here, but now with privatization we have our destiny in our own hands which has allowed for regional economic development. We are able to tailor our services to the needs and aspirations of the community in which we operate”.

#### **4.5 Conclusion**

The chapter began with a brief introduction of the purpose of the survey relative to the main goal of the project. It then proceeded to outline the main parts of the chapter in relation to the survey - background information, pre-privatization, the privatization process, post-privatization (results), and closing comments. In the survey, senior to middle managers of both public-to-private and private companies were interviewed.

The survey shows that privatization has indeed met the goals and aspirations of government and of participating businesses. The results of the survey also indicate that privatization as a government policy was necessary to solve many of the problems that faced CCs and SOEs. Most, if not all, of the major goals and objectives of privatization highlighted in the literature review and tested in the survey proved to be positive. It also attests to the fact that government needed to embark on this policy reform to save these businesses, some of which were very inefficient in product and service delivery, non-competitive, and non-performing. With generally low levels of profitability and high debt ratios, the pressure on many governments from both developed and less developed countries realized that private sector participation and involvement was necessary not only to reduce the economic role of government in the economy but also to afford CCs and SOEs the opportunity to be able to pursue market driven policies.

The results also show that the goals and aspirations of businesses have been met with the advent of privatization. Service delivery is considered to have improved in most of the privatized companies leading to greater efficiencies not only in terms of goods and service delivery but also through cost savings. The results indicate that these privatized companies are enjoying much greater autonomy from the government and, therefore, are able to pursue market driven policies, decide on which sectors in which to compete, and how to compete. They are able to formulate both short and long term goals and follow through with less or no government influence.

Businesses are able to raise capital due in part to the new dispensation. The ability to raise capital either through the capital market or through some other external means have allowed these companies greater flexibility and direction in investment opportunities, competition for market share, and also the ability to position themselves strategically in the global market place. CCs, SOEs, local government, and some public institutions in Canada have had quite a storied history. These corporations had encountered an increasing number of problems over the last century. Government saw privatization as a major public sector policy reform necessary to improve the performance of most CCs and SOEs. Local governments and some public institutions have also utilized this policy initiative to provide fast and efficient delivery of service, generate revenue, and increased productivity and performance at all levels. These results of the survey clearly support the literature outlined above.

Even though the survey indicates that privatization meets the goals and aspirations of government and of participating businesses, there exist some challenges. For example, most privatized companies face the challenge of sustainability after privatization. These companies have always

relied on government funding and borrowing for the greater part of their existence and, therefore, find it difficult to survive without government assistance. The issue of revenue generation has brought about challenges for these companies around profitability, performance, and productivity. The social dimension of privatization is another challenge. Since most privatizations have resulted in loss of jobs and other forms of employment changes, the public image of most privatized companies has suffered. Sometimes, those employees whose jobs were affected portray the new business entity as one without social conscience and not a good corporate citizen. Labour union challenges also exist in most companies even after privatization. Finally, most of these companies go through what has become known as the 'transitional phase' after privatization. This is where companies move from the traditional method of doing business to the new ways of operation. Moving from a government set-up to a more private oriented management style remains a challenge since it usually involves a complete reorganization and restructuring of the organization. From the survey, almost all privatized companies went through this phase and some were able to restructure and adjust quickly to realize success. Some have still not fully adjusted to their new roles and, therefore, have not realized the full benefits of privatization. For those that have not been able to move beyond the transitional stage, a number of factors account for this; including labor disputes, human resource issues, and public perception.

#### **4.6 Recommendations**

The last part of this chapter provides comments in the form of recommendations. These were derived from the survey results and topics suggested within the literature review.

Even though there was general consensus about the successes of privatization as a government policy, most respondents believe that certain measures need to be put in place to ensure its effectiveness as well as protect the public interest. Top of the list is an oversight body set up by

government to set standards, key indicators, and metrics (such as acceptable levels of service delivery), as well as to do a complete background check on prospective companies bidding for contracts or taking over a CC or SOE to protect the public interest. It is only through the establishment of these benchmarks by an oversight body that consumers can be assured of quality products and services delivery. The idea is that once a CC or SOE has been privatized, this government oversight body should have responsibility over the new business to ensure that service delivery is maintained at a high level.

It is also recommended that, the idea that the lowest bidder gets the contract should not be promoted or encouraged in the tendering process. This in some cases has culminated in some privatized CCs and SOEs being worse off than they were before privatization. The lowest bidder is not always the quality producer of a good or service; therefore, the emphasis should rather be on measurable key metrics and indicators of quality service rather than the lowest bidder. It goes without saying that government, as well as public institutions, should at all times look after the taxpayers' interest before embarking on privatization to avoid public exploitation by the private sector.

Furthermore, the fact that privatization has been public policy does not mean government should follow blindly and privatize all CCs and SOEs. In the same way, all public institutions should not embark on privatization for the sake of it. It is recommended that essential services should still remain in the hands of government in terms of control and delivery. Also, respondents are of the view that CCs and SOEs in the non-renewable resource sector should not be privatized as one cannot put a price or dollar figure on these resources and, therefore, the best way to manage and ensure judicious use of public resource is only through the government and not the private sector.

Government should, therefore, maintain firm control and as well hold these resources in trust for its citizenry.

Another recommendation is that in moving towards privatization, in most cases the focus should not be on the CCs and SOEs but rather on senior management of these companies. This follows the argument that government should not be caught up in the efficiency and performance argument of CCs and SOEs but rather the agents and principals appointed to manage and run these companies since in the long run it will come down to these individuals to bring about change. Even though most senior managements are political appointees government should appoint people with the requisite skills, expertise, and technical know-how in relevant sectors. In certain instances, the problem has not been the corporation itself but those agents or principals that have not performed well. Finally, equipping some these CCs and SOEs with modern management practices, tools, and techniques is seen as an optional way to solve some of the problems facing CCs and SOEs.



## **CHAPTER FIVE**

### **5.0 PROJECT DISCUSSIONS AND SUMMARY**

Privatization of CCs and SOEs has become a worldwide phenomenon. Governments all over the world have adopted this policy initiative to solve some of the problems of their SOEs and CCs. This policy initiative, which first begun in the UK, has been operational in most countries around the world. Most public institutions such as hospitals, universities and colleges, and school districts have all engaged in one form of privatization or another for various reasons. In Canada, this policy initiative began in 1970's and become fully operational in the late 1980s and early 1990s when a number of CCs and SOEs, most of which were established after the Second World War, were privatized. The state, through these CCs and SOEs, played a significant role in the economic activities before, during, and after the war, however, with the changing economic climate after the 1970s, it was realized that policy reforms were necessary for Canada to align itself with the changing times. Privatization was seen as one of the policy reforms needed to transform some of these CCs and SOEs. Therefore, the purpose of this project was to examine whether privatization has met the needs and aspirations of government and of participating businesses.

The methods used to collect data for the study included exploratory, secondary, and primary research. Exploratory research took the form of casual discussions around privatization with professionals from the public and the private sectors. This was used as a catalyst around which the research question for the project was formulated. It also provided a framework for the project in terms of a hypothesis as well as the relevant secondary materials needed for this project.

Secondary research was through a review existing literature on privatization. Various sources of secondary data were accessed for this project. Scholarly and refereed articles and various journal articles were extensively used. In some instances, case studies, publications, government documents and policy papers were also looked at. In addition, the internet was occasionally used to gather information.

Privatization is used interchangeably with the term divestiture. In some countries, it is known as divestiture where as in other countries it is known as privatization. Regardless of which term one uses, it is a term that conveys many forms of change some of which include; the sale of public assets, Public Private Partnerships (P3s), contracting out, cessation of government services, and others.

Primary research in the form of a survey was used to collect primary data which helped in answering the research question. The survey was designed in two ways - one for managers in public-to-private companies and the other for managers in the private sector. There was the need to interview these middle managers to get first-hand information about their views on privatization. Also, not only were they a source of vital information, having had privatization experiences, but also most of them have been around for quite sometime, and have experienced most of the transformations that have taken place in CCs and SOEs specifically and the economy in general. These were senior to middle managers who possessed the right information to answer the research question.

There is no denying that governments through privatization have raised significant amounts of revenues. Regardless of which form it takes, the privatization debate has generated a lot of

discussion worldwide with some entrenched positions. Arguments and theories have been advanced by a host of people including economists, social commentators, politicians, academicians, and management professionals. Whereas some are of the view that privatization was necessary as policy reform to reverse the downward trend of most CCs and SOEs, others saw it differently.

According to proponents of privatization, CCs and SOEs had become a drain on national resources due to an accumulation of debt which was the result of inefficient delivery of services, government influences in the running of business, under-performance, and lack of market driven policies. They further argue that most of these corporations have outlived their usefulness and do not play as significant role in the state as they used to, nor are relevant in today's modern economy. Therefore, privatization offers a good policy alternative to these corporations. This group believes that privatization is needed to make these corporations efficient, financially sound, and with no government funding or borrowing. To them, government does not have any role to play in the running of these corporations and, therefore, with privatization the private sector will have the opportunity to bring their expertise and skills to change the fortunes of some of these failing corporations.

Opponents of privatization insist that, most of the arguments advanced by the proponents do not hold water and, therefore, do not see it in the same light. They argue that most of the CCs and SOEs were established after the Second World War to perform certain specific national and provincial functions and were not seen as profit making ventures. Therefore, what is needed is a careful study to re-align and restructure these corporations to fit the current economic climate and perform well. According to this group, privatization amounts to putting public goods in the hands

of private companies and does not offer any real solutions to the problems and challenges of CCs and SOEs. They further argue that profitability was not one of the main reasons why most these corporations were established and, therefore, this should not be the primary excuse to privatize CCs and SOEs. Opponents of privatization believe that some CCs and SOE represent national pride and heritage and, therefore, with privatization, these corporations stand to lose their symbolic presence in society as well as its history. All these show that the impact and discussions of privatization on world economies is less conclusive, and Canada is no exception.

Historically, Canada developed its public sector with the aim of complementing the efforts of the private sector. Therefore, it is safe to say that Canada's public sector remained dominant in various sectors of the economy after the Second World War until about the 1970s and the early 1980s when this dominance began to diminish due to a number of policy reforms, one of which was privatization. In Canada, CCs are established by a special Act of Parliament or by articles of incorporation under the Canada Business Corporation Act (CBCA) to assist the government in its responsibilities to the Canadian people. They are legal entities established as arm's length corporate entities to pursue public policy and commercial objectives on behalf of the government. These corporations performed creditably until the late 1970's when external pressures, such as globalization and the world economic downturn due to the oil crisis, had negative impacts on these corporations. The consequence of this was financial under performance, staggering accumulation of debts, and inefficient delivery of services. Most of these corporations became a drain on both national and provincial economies to the extent that governments both federal and provincial needed new ideas in the form of policy reforms to solve these problems. Of all the policies discussed, privatization emerged as the dominant and most favoured solution to the dwindling fortunes of CCs and SOEs in Canada.

With this, it was imperative to test the successes, if any, of the privatization policy. This study, therefore, proceeded with a survey to test and see whether the goals and aspirations of the government and of participating businesses have been realized. In other words, the survey was designed to see if corporations that previously functioned as CCs and SOEs but have now been privatized are better or worse off. The results from the survey revealed that both government and participating businesses are satisfied with the results of privatization thus far. Some of the successes of privatization are discussed below;

With the introduction of the privatization policy government has engaged the private sector to participate in the economic activities of the economy, thereby allowing government to concentrate on managing the economy. Service delivery, which seemed to be one of the biggest problems of CCs and SOEs, is reported to have improved since these corporations were privatized. These corporations known as public-to-private companies are now able to deliver service at a lower cost thereby passing all the savings to the consumer. With better service delivery comes better financial performance as most of these companies are now financially viable. Most of them are no longer 'tied to the apron strings' of the government in terms of funding and access to capital in the running of their businesses. They are able to engage in revenue generating ventures to raise the needed capital as well as able to secure funds through the capital markets which hitherto was not available.

Competition for capital, labour and other resources have never been more intense. Thanks to privatization, public-to-private companies now have to compete with their private counterparts for human capital which is the bedrock of every company. This has certainly ensured that companies



hire the best and the brightest in the labour market in order to succeed in the marketplace. This is in sharp contrast to what existed previously where government appointed senior management to fill top position in most CCs and SOEs. Since most were political appointees, qualifications and technical know-how certainly did not matter in some appointments. As well, top management and for that matter most CCs and SOEs at least behaved as if they were not accountable to the public but only to the sector minister or the government who appointed them. However, with the advent of privatization, all these have changed as these companies have become more accountable to the public through the markets. Customers will shun companies with no better customer services or offer products and services that appeal to them. Also, companies have to compete for capital either through the financial or capital markets.

Another discovery from the survey is the realization that the private sector is the engine of economic growth. With the privatization of CCs and SOEs, Canada has moved from a 'government centered society' into a state where government has less influence in the running of business. Privatization as a government policy has not only ensured private sector participation in economic development, but has also ensured a free market system where most market decisions are left to the markets with little or no interference from government or its agencies. This situation has again allowed governments to focus on more important issues of the economy to provide good governance with undivided attention. Evidence of budget surpluses has been the order day for the federal and most provincial government since the privatization policy begun. Also, government priorities have now been shifted from managing the problems of CCs and SOEs to managing the economy.

Globalization has changed the political and economic landscape of the business environment. The global marketplace has also changed the way business is done. This situation suggested new ways and alternatives of doing business as the structure of CCs and SOEs that existed previously did not offer that alternative. Privatization has created a solution where these companies are able to modernize and automate to fit the current global profile. The new dispensation calls for a global mindset able to cater to the global customer. By allowing private sector participation through privatization, CCs and SOEs are able develop strategic and long term plans with not only Canadian consumers in mind, but consumers around the world.

There is no doubt that government and participating businesses have benefited from privatization, however, the policy initiative has brought some challenges especially to businesses and to a lesser extent government. It has made some governments and politicians unpopular with the electorate to the extent that some have suffered electoral losses.

For businesses, some of the challenges are immediate and direct, whereas for others, they are remote and indirect depending on status and jurisdiction. In some case, mistakes were made before, during, and after the process and as result these companies are paying the price. Some companies instead of focusing on improvement and gains made are still dealing with the same problems they faced before they were privatized.

Lessons could be drawn from these shortcomings to make sure these challenges are mitigated for future privatization initiatives. Careful planning, consultations, and deliberations on both parties need to be promoted and encouraged. As well, employees' involvement and participation in the



form of discussions and consultations earlier on in the process could help improve the implementation of the policy initiative.

In conclusion, the study shows that privatization as a policy has met the needs and aspirations of both the government and participating businesses. The benefits of privatization to the Canadian economy have been highlighted. However, these are not without some challenges and bottlenecks that needed to be addressed. It is hoped the recommendation when implemented will improve and enhance the policy initiative for future privatizations of CCs and SOEs in Canada.

### **5.1 Future/Next Research Topics**

The study looked at privatization of CCs and SOEs of various governments and public institutions, however, it lacked depth. Therefore, future research topics could focus on one specific CC or SOE in great detail of the successes and failures of privatization. My convenience sample cut broadly across a number of sectors and it will be important to examine differences within sectors to further highlight the nuances of privatization.

Furthermore, it would be interesting to compare the successes and failures of privatization of both federal and provincial CCs and SOEs. Governments are not the only institutions that have engaged in privatization. This comparative interest could also be extended to international cases; especially cross-national comparisons first within OECD countries and second between developed and less developed economies. In the case of developed and less developed economy comparison, it would be interesting to examine the different roles of privation over time. Some private companies have also adopted this policy in the form of outsourcing.

One could look into the either a specific company a number of private companies that have adopted this policy and examine it to see how they have used this as a source of competitive advantage.

In addition, an assessment could be done on which forms privatization works best for both government and public institutions. Or the differences in how public institutions and government implement a privatization policy could also be a future research topic.

Another avenue of future research could be towards the 'consumer' side of the service privatization equation. One inquiry could look at whether the public felt better served as a result of privatization. Another could look at the role of privatized firms in supply chains, and whether firms 'up' and 'down' stream of the privatized company felt better served by the change.

## Appendix 'A'

### Consent Form

#### Privatization of Crown Corporations (CCs) and State-Owned Enterprises (SOEs)- The Goals and Aspirations of Government and of Participating Business

### Consent Form

Do you understand that you have been asked to be in a research study? ☐ Yes ☐ No

Have you read and received a copy of the attached information sheet? ☐ Yes ☐ No

Do you understand the benefits and risks involved in participating in this study? ☐ Yes ☐ No

Have you had an opportunity to ask questions and discuss this study? ☐ Yes ☐ No

Do you understand that you are free to refuse to participate or to withdraw from the study at any time? ☐ Yes ☐ No

Has the issue of confidentiality been explained to you? ☐ Yes ☐ No

Do you understand who will have access to the information you provide? ☐ Yes ☐ No

This study was explained to me by: \_\_\_\_\_  
*Print Name*

I agree to take part in this study:

\_\_\_\_\_  
*Signature of Research Participant*

Date: \_\_\_\_\_

\_\_\_\_\_  
*Printed Name of Research Participant*

\_\_\_\_\_  
*Signature of Witness*

Date: \_\_\_\_\_

\_\_\_\_\_  
*Printed Name of Witness*

I believe that the person signing this form understands what is involved in the study and voluntarily agrees to participate.

Date: \_\_\_\_\_

\_\_\_\_\_  
*Signature of Investigator*

The Information Sheet must be attached to this Consent Form and a copy kept by the Research Participant.

## **Appendix 'B'**

### **Information Sheet**

#### **Privatization of Crown Corporations (CCs) and State-Owned Enterprises (SOEs) - The Goals and Aspirations of Government and of Participating Business**

##### **Information Sheet**

**Purpose** - The purpose of this project is to examine whether privatizing CCs and SOEs meet the goals and aspirations of government and of participating business in Canada. The project objective is to provide an insight into the privatization of CC and SOEs in Canada to serve as a reference point for both the public and the private sectors in future privatizations decisions. This project is also in partial fulfillment of the requirements for Master of Business Administration (MBA) degree. The research will involve a review of past work that has been done on this topic, as well as interviews with senior and middle managers of both public and private sector companies.

**How Respondents are chosen** - Key individuals are randomly selected from publicly available lists of senior and middle managers in public and private sector companies in Canada. Potential interview participants are contacted through email and/or telephone call to seek their consent to participate in the study. For those contacted through email, an information sheet highlighting details of the project (Project Outline) is sent by email. For those contacted by telephone, the information sheet is sent by fax or mail. For those participating, a consent form is distributed for them to complete and return to confirm their participation. A date and time for the interview is communicated to participants well before the commencement of the interview.

**Anonymity and Confidentiality** - The names of potential interviewees will not be used in any reporting, nor will any participant be identified through the analysis. All information provided by participants during the interview process will be held within strict confidence by me. All records will be kept in a locked file cabinet in my office at Chubb Security Systems and accessible only to me. The information will be kept until the final report of my project is complete and graded. After this time, I will personally destroy (through shredding) of all information related to the interviews.

**Potential Risks and Benefits** - This project has been assessed by the UNBC Research Ethics Board. I do not consider there to be any risk to participation. It is my hope that by participating you will have a chance to contribute meaningfully to the issues of privatization of CCs and SOEs and economic development of Canada.

**Voluntary Participation** - Your involvement/participation of this MBA project is entirely voluntary and, as such you may choose not to participate. If you participate, you may choose not to answer any question that makes you uncomfortable, and you have the right to terminate your participation during the interview at any time and have all the information you provided withdrawn from the study. The interview is about 1 hour in length.

**Research Questions/Results** - For questions arising from this project, please feel free to contact myself at [Owusu-nk@unbc.ca](mailto:Owusu-nk@unbc.ca) or my supervisor at [halseth@unbc.ca](mailto:halseth@unbc.ca). The project report will be distributed to any participant who requests a copy.

**Complaints** – Any complaints about this project should be directed to the Office of Research, UNBC (250) 960-5820 or by email: [reb@unbc.ca](mailto:reb@unbc.ca)

## **APPENDIX 'C'**

### **Questionnaire: Public to Private Sector Companies/Organizations**

#### **Section A - Background**

**Interviewee Name:**

**Company/Organization Name:**

**Mailing Address:**

**City: Prince George**

**Phone:**

**Gender:**

Male

Female

**Date of interview:**

**1. Please describe your position in this company/organization**

Senior Manager

Middle Manager

**2. How long have you worked with this company/organization?**

#### **Section B - Pre-Privatization**

**3. Has your company/or portion of you company been privatized?**

Yes

No – go to last section

**4. If yes, could you describe what parts were privatized?**



**5. When was it privatized?**

**6. How was it privatized?**

- Contracting out
- Public Private Partnership
- Cessation of Service by government
- Sale of Public Assets
- Other

Please explain

**7. Who privatized it?**

- Federal Government
- Provincial government
- Local Government
- Other

**8. What would you say were some of the key issues around privatization discussed before the company was privatized?**

- Inefficient delivery of service
- Competition

- Dependent of government funding
- Government influence
- Reducing economic role of the government

- No market driven policies
- Resistant to taxes
- Decline in profitability
- CC and SOEs have outlived its usefulness

- Globalization
- Global competitive market place
- Other
- Please explain

**9. Before privatization, what would you say were some of the anticipated benefits?**

Please explain

**10. Before privatization, what would you say were some of the anticipated challenges?**

Please explain

**11. How would you say the performance of your company was before privatization/ or before portions of the company were privatized?**

Highly performed

Performed

Fairly performed

Poorly performed

**12. How effective would you say services delivery was before privatization?**

Very effective

Effective

Fairly effective

Not effective

**13. On average, how much would you say your total budget depended on government borrowing before privatization?**

100%

75%

50%

25%

0%

**14. What would you say was the level of government influence in your company before privatization?**

High

Medium

Low

None

Please explain

### **Section C - During the Privatization Process**

**15. During the privatization process, what would you say were some of the main challenges?**

**16. Which key area(s) of your company (or portions) received the most attention during the privatization process?**

**17. How would you describe the privatization process?**

- Friendly
- Not friendly
- Fair
- Consuming
- Challenging

### **Section D - Post Privatization (Results)**

**18. What would you say are some of the key issues for your company (or portions) after privatization?**

- Funding
- Service delivery
- Market driven policies
- Tax Implications
- Competition

**19. What would you say are some of the challenges after the company (or portions) were privatized?**

- Revenue Generation
- Self sustenance
- Human Resource
- Labor Unions

**20. Would you say the expected benefits of privatization have been realized?**

Yes

No

Please explain

**21. How would you say the company (or portions) is performing so far after privatization?**

Highly performing

Well performing

Fairly performing

Poorly performing

**22. How effective would you say services delivery is after privatization?**

Very effective

Effective

Fairly effective

Not effective

**23. On average, how much of you budget would you say is dependent on government borrowing after privatization?**

100%

75%

50%

25%

0%

**24. What would you say is the level of government influence in your company after privatization?**

High

Medium

Low

None

**25. How would you say the financial situation of your company is after privatization?**

Highly improved

Improved

Fairly improved

Not improved

**Section E - Other Benefits and Costs to Privatization**

**26. Do you think privatization as government policy has stimulated economic development in Canada?**

Yes

No

**If yes, how (please explain)**

**27. Any other benefits of being a privatized company (or portions)?**

Yes

No

**If yes, please describe**

**28. Any other costs associated with privatization that we have not talked about?**

Yes

No

**If yes, please describe**

**29. Is there anything else would you like to say about privatization?**

## **APPENDIX 'D'**

### **Questionnaire: Private Sector Companies/Organizations**

#### **Section A - Background**

**Interviewee Name:**

**Company/Organization Name:**

**Mailing Address:**

**City:**

**Phone:**

**Email:**

**Gender:**

Male

Female

**Date of interview:**

**1. Please describe your position in this company/organization**

Senior Manager

Middle Manager

**2. How long have you worked with this company/organization?**

#### **Section B - Understanding of Privatization**

**3. Have you heard about privatization?**

Yes

No

**4. Which forms of privatization are you familiar with (please describe/explain)?**

Contracting out

Public Private Partnership

Cessation of Service by government  
Sale of Public Assets  
Other

**5. What do you think are some of the key benefits of privatization (please describe/explain)?**

Efficiencies  
Responsiveness  
Cost savings  
Productivity  
Other

**6. What do you think are some of the key challenges for businesses in terms of the move towards privatization (please describe/explain)?**

**7. What would you say were some of the key issues that need to be looked at before government embarks on privatization (please describe/explain)?**

**Operations:**

Inefficient delivery of service  
Dependent of government funding  
No market driven policies  
Resistant to taxes  
Decline in profitability

**Business Environment:**

Excessive government influence  
Reducing economic role of the government  
CC and SOEs have outlived its usefulness  
Competition  
Global competitive market place

**Section C - Privatization Experiences**

**8. Have you ever been part of a privatization process?**

Yes  
No – go to last section



**9. If yes, what did you find were some of the key issues, challenges, or benefits as the privatization process proceeded (please describe/explain)?**

Issues:

Benefits:

Challenges:

**10. After privatizing CCs and SOEs, what did you find were some of the key issues, challenges, or benefits for the new business (please describe/explain)?**

Issues:

Benefits:

Challenges:

*Question 9 & 10 prompts:*

*Funding*

*Service delivery*

*Market driven policies*

*Tax Implications*

*Competition*

*Revenue Generation*

*Self sustenance*

*Human Resources / Labour Unions*

#### **Section D – Closing Comments**

**11. Are you aware of any general benefits of privatizing CCs and SOEs that we have not yet discussed?**

Yes

No

**If yes please describe**

**12. Are you aware of any general costs of privatizing CCs and SOEs that we have not yet discussed??**

Yes

No

**If yes please describe**

**13. Do you think privatization as government policy has stimulated economic development in Canada?**

Yes

No

**If yes How?**

**14. Is there anything else about privatization that you would like to say?**

## **APPENDIX 'E'**

### **CROWN CORPORATIONS IN CANADA- FROM 1920 TO 2002**

#### **1920s:**

Canadian National Railway Company (CN Rail), 1922; c

#### **1930s:**

Canadian Broadcasting Corporation (CBC), 1936

The Bank of Canada, 1938

#### **1940s :**

Canada Mortgage and Housing Corporation (CMHC), 1946

#### **1950s:**

Defence Construction Limited, 1951

Atomic Energy of Canada Limited (AECL), 1952

Canada Council for the Arts (often referred to as the Canada Council), 1957

National Capital Commission, 1958

Farm Credit Canada (FCC), 1959

#### **1960s:**

Telefilm Canada, 1967

Export Development Canada (EDC), 1969

Royal Canadian Mint (or Canadian Mint), 1969

#### **1970s:**

International Development Research Centre (IDRC), 1970

Business Development Bank of Canada (BDC), 1974

VIA Rail Canada Inc. (VIA Rail), 1977

#### **1980s:**

Canada Post Corporation (or Canada Post), 1981

#### **1990s:**

National Gallery of Canada (often simply the National Gallery), 1990

Canadian Race Relations Foundation (CRRF), 1996

Canada Pension Plan Investment Board (CPPIB), 1998

#### **2000 and beyond:**

Canadian Tourism Commission (CTC), 2001

Canadian Air Transport Security Authority (CATSA), 2002

Source: Maple Leaf web <http://www.mapleleafweb.com/features/general/crown-corporations/index.html>  
(Accessed March 26, 2007)

## **APPENDIX F**

### **Privatization by the Government of Canada from 1985 to 2004**

<b>Corporation</b>	<b>Buyer</b>	<b>Year</b>	<b>Price</b>
Northern Transportation Company Ltd.	Inuvialuit/Nunasi Corporation	1985	\$27 M
de Havilland Aircraft of Canada Ltd.	Boeing Company	1985	\$155 M
Pêcheries Canada Inc.	La co-opérative agro-alimentaire Purdel	1986	\$5 M
Canadian Arsenals Ltd.	SNC Group	1986	\$92 M
Canada Development Corporation (47% interest)	Public and private share offerings	1986-1987	\$361 M
Nanisivik Mines Ltd. (18% interest)	Mineral Resources International Ltd.	1986	\$6 M
CN Route	Route Canada Holdings Inc.	1986	\$29 M
Canadair Ltd.	Bombardier Inc.	1986	Approx. \$296 M
Northern Canada Power Commission – Yukon	Yukon Power Corporation	1987	\$76 M
Teleglobe Canada	Memotec Data Inc.	1987	\$608 M
Fisheries Products International Ltd. (62.6% interest)	Public share offering	1987	\$117 M
Varsity Corporation (8 million purchase warrants)	Public and private share offerings	1987-1991	\$9 M
CN Hotels	Canadian Pacific Ltd.	1988	\$265 M
Northern Canada Power Commission – NWT	Northwest Territories Government	1988	\$54 M
Northwestel Inc.	BCE Inc.	1988	\$200 M
Terra Nova Telecommunications	Newfoundland Telephone Company Ltd.	1988	\$170 M
CNCP Telecommunications and Telecommunications Terminal Systems (50% interest)	Canadian Pacific Ltd.	1988	\$235 M
Air Canada	Public share offerings	1988-1989	\$707 M

Petro-Canada	Public share offering	1991-1992-1995 and 2004	\$5,707 M
Cameco	Public offering and sale to securities firm	1991-1992-1993-1994-1995	\$444 M
Nordion International Inc.	MDS Health Group Ltd.	1991	\$165 M
Telesat Canada	Alouette Telecommunications Inc.	1992	\$155 M
Cooperative Energy Corporation	Public offering	1992-1993	\$75 M
Canadian National Railways	Public offering	1995	\$2,079 M
CN Exploration	Smart on Resources Ltd.	1995	Undisclosed
Civil air navigation system (departmental service)	NAV Canada	1996	\$1,500 M
Canarctic Shipping Company Ltd. (51% interest)	Fednav Ltd.	1996	\$0.3 M
Canada Communication Group	St. Joseph Corporation	1996	\$11 M
National Sea Product (10.5% interest)	Scotia Investments Ltd.	1997	\$6 M

**Source: Allison Padova, Federal Commercialization in Canada. Parliamentary Information and Research Service. Ottawa. 2005.**

## APPENDIX 'G'

### Revenues from Privatization by Various Countries

#### Amounts Raised from Privatization, by Various Countries between 1990-1997

	1990	1991	1992	1993	1994	1995	1996e	1997e
<i>(Millions of current US dollars)</i>								
Australia	19	1,267	1,893	2,075	2,046	7,996	9,580	7,100
Austria	32	46	49	142	700	1,035	1,251	1,600
Belgium	—	—	—	956	549	2,681	1,221	900
Canada	1,504	808	1,249	755	490	3,303	1,762	2,000
Czech Republic	—	—	—	—	1,077	1,205	994	700
Denmark	644	—	—	116	2,815	12	382	100
Finland	—	—	—	229	1,166	363	911	100
France	—	—	—	12,160	5,479	4,136	5,099	5,300
Germany	—	325	—	435	240	—	13,273	2,600
Greece	—	—	—	—	—	—	529	1,500
Hungary	36	470	720	1,642	1,017	3,813	880	1,000
Iceland	—	—	21	10	2	6	—	—
Ireland	—	515	70	274	—	157	293	—
Italy	—	—	—	1,943	6,493	7,434	6,265	6,600
Japan	—	—	—	10,060	5,762	—	6,379	8,700
Korea (South)	—	—	—	817	2,435	480	1,849	1,700
Luxembourg	—	—	—	—	—	—	—	—
Mexico	3,124	10,754	6,866	2,503	766	170	72	1,900
Netherlands	699	179	17	780	3,766	3,993	1,239	600
New Zealand	3,895	17	967	630	29	264	1,839	—
Norway	—	—	—	287	118	510	660	200
Poland	62	336	240	734	642	1,516	495	3,500
Portugal	1,092	1,002	2,217	422	1,123	2,343	3,624	3,500
Spain	226	—	1,491	2,561	1,390	2,215	1,877	11,500
Sweden	—	—	378	252	2,313	852	785	1,100
Switzerland	—	—	—	—	—	—	—	—
Turkey	486	224	423	546	412	515	292	4,100
UK	12,906	21,825	604	6,523	1,341	6,691	6,695	3,300
United States	—	—	—	—	—	—	—	—

**OECD total:** 24,729 37,770 17,204 49,032 42,171 52,162 66,449 69,600

**Global total:** 29,803 48,183 37,049 73,008 60,282 77,220 87,929 99,600

Notes: Totals may not add due to rounding; 1996 data are preliminary, 1997 data are estimates

## APPENDIX 'H'

### Largest privatizations of federal Crown corporations in Canada

Name	Sector	Year of Privatization	Sale Proceeds (Canadian \$)
CN	Transportation	1995	2,079
Petro-Canada	Oil and gas	1991	1,747
Nav Canada	Transportation	1996	1,500
Air Canada	Transportation	1988	474
Teleglobe Canada	Telecommunications	1987	441
Canada Dev. Corp.	Financial	1987	365
Nordion International	Manufacturing	1991	161
Telesat Canada	Telecommunications	1992	155
de Havilland Inc.	Manufacturing	1986	155
Canadair	Manufacturing	1986	141
<b>TOTAL</b>		<b>1986-96</b>	<b>7,218</b>

Source: Receiver General for Canada 1986-96. Public Accounts of Canada. Various issues, 2 vols. Ottawa: Supply and Services Canada.



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