

AN EMPIRICAL STUDY OF THE ATTITUDES OF SAUDI ARABIAN AIRLINES EMPLOYEES TOWARD PRIVATIZATION

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Abstract

This study draws on prior research works and comparable measures to empirically investigate the attitude of Saudi Arabian Airlines (*Saudia*) employees toward privatization. We conceptually developed an understanding as to why would it be feasible to privatize and illustrate some of the conditions for success in such situations. The study hypothesized that there exists a positive relationship between the attitude of *Saudia* employees toward privatization and the following four independent constructs: material and non-material incentives, development and training, optimal utilization of resources, and quality of services rendered. The empirical findings support our expectations as hypothesized. As a result, policy implications and suggestions for further research have been put forward.

I. INTRODUCTION

The fall of the Berlin Wall in 1989 and the subsequent disintegration of the Soviet Union seem to have sent powerful shocks of economic and social changes that swept throughout the whole world, thus setting off new forces which tend to shape the new world order. The countries of Central and Eastern Europe as well as the Russian Federation together with the former Soviet Republics began in earnest in 1991 the transformation from command economies to market economies. But the transition to market economies, for these countries, is proving to be lengthy and difficult, to say the least. Why?

The answer may lie in the fact that people who had lived for generations under command economies seem to lack the essential spirit and sense of the private ownership because they had been deprived of the fruits of profit incentives in private enterprises. So, it may take them a longer time to absorb and assimilate the values of private ownership and private enterprises and all of its characteristics than those peoples living with the values and characteristics of private ownership in a free market economy as asserted by Wilson (1984) and McPherson (1987).

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In a command economy (also known as centrally planned economy), the economic behavior is determined by some central authority, usually government-appointed committee, which makes all “the necessary decisions on what to produce, how to produce it, and who gets it”(Lipsey, 1999). In such command economies, consumers are always plagued with chronic shortages of goods and services in which case consumers’ wishes and desires are not fulfilled under such command systems as was the case, for example, under the defunct Soviet socialist system.

By contrast, in a free market economy, goods and services are available in great abundance because the decisions on production, distribution, and consumption of goods and services are determined by the mechanism of the price system (Olson, 1984) in which both producers and consumers respond to changes in market conditions. They react and respond predictably to changes in prices, profits, losses, and costs, which are all important market signals that lead to proper allocation of scarce resources in a free market economy without much government interference. In other words, the problems of: *What* to produce, *how* to produce it, and *who* gets it, are amazingly solved by the simple price system (as an “invisible hand”) which allows decision making to be decentralized to millions of individual producers and consumers in the marketplace (Lipsey, 1999). It is the “consumer sovereignty” which overrides everything else in a free market economy, and, as a result, all producers must cater to this sovereignty by responding to the wishes and desires of millions of consumers as reflected by their market demands in the marketplace. And this is the difference between command economies and free market economies.

In many economic studies, various writers seem to stress that the less restrictive measures and procedures of privatization of public enterprises, the more would be the receptivity and acceptability by both the employees and government officials. Amer (1995), Bradburd (1992), Bu-Hilaigah (1995), Kamel (1995a), Kikeri (1992) and others all seem to emphasize that the prospects of privatization of some public enterprises are brighter and more economically feasible than others.

In many of the developing countries, most of the economic projects and enterprises were privately owned to begin with; but over time, the state took control of such private enterprises through either confiscation and/or nationalization [(see in particular Kamel (1995b), Bu-Hilaigah (1995), and Heald (1992)]. However, due to the failure of administration by the state and the pressures put to bear on the state by the call for more economic freedom demanded by international economic organizations, the state seems to have retreated and therefore began reselling such enterprises back to the private sector. These kinds of state policies have led to many economic studies which gave great importance and impetus to such economic transformation. But such transition policies seem to have created a host of problems (Kamel, 1995b) such as fears of great numbers of workers and employees for their future employment and job security.

Not so in the case of the Kingdom of Saudi Arabia. Indeed, Kamel (1995a) asserts that the case of privatization in the Kingdom appears to be “unique” as compared to other countries in that the Kingdom of Saudi Arabia has never confiscated or nationalized any of the private enterprises or establishments. Indeed, the Saudi Government has continuously been helping to build the private sector through various funds such as grants, subsidies, and other financial means of assistance to small businesses to build plants, factories, and set up various business entities.

The government has, furthermore, continually supported the Saudi exporters and helped them find new markets for their products. It has set up new different funds specifically for industrial development which totaled to more than SR19.8 billion for the industrial sector alone up to the end of 1991-1992 fiscal year in which more than 1160 different, private investment projects and establishments benefited from these funds. Furthermore, the government financing of the agricultural sector has amounted to more than SR25.7 billion by the end of 1993, all in the form of financial grants and subsidies [see for example: Kamel (1995a) and Bu-Hilaigah (1995)].

To define the Saudi Government's commitment and encouragement to the private sector, Kamel (1995a) indicates the government commitment to this vital sector when the Custodian of the Two Holy Mosques, King Fahd, delivered his famous commitment address to the Second Conference of the Saudi Businessmen over two decades ago, ascertaining that "The private sector is the cornerstone of the State, and that the prime duty of the State is to assist and direct this vital sector, and that in no way will the state own everything; but, instead, the State wants the private sector to own, to operate, and to manage the economic activities of the country"(Kamel, 1995a). And so, the King had spoken and launched the call for a well-defined process of privatization within the Kingdom well ahead ten years before the new "slogans" of privatization invaded us (Kamal, 1995 (a)).

This paper consists of four parts. Part I deals with the introduction by surveying the historical background on privatization. Part II presents literature review, discusses the theoretical framework and analyzes the relevant hypotheses for the purpose of empirical tests, whereas Part III attempts to outline the methodology and empirical estimation and define the data. Part IV contains a summary of the findings and conclusions. It also includes policy implications and recommendations, and provides suggestions for further research.

II. LITERATURE REVIEW

1. Theoretical Background

We would like to state from the outset that so far we haven't seen a precise and succinct definition of the "theory of privatization" in most of the available published literature. Hence, in what follows, we shall propose to put forward several postulates or premises as a prerequisite for the existence of a theory of privatization.

Statement of the Postulates:

- (i) Stability of Political system
- (ii) Economic freedom
- (iii)Competitive environment (free competition)
- (iv)Economic efficiency
- (v) Profitability

The preceding five postulates can be considered as basic conditions for privatization. The implications are such that without political stability, economic freedom is unattainable and, hence, a theory of privatization will not exist because no public enterprise would be acceptable for privatization under political turmoil. Consequently, postulate (ii) depends

critically on postulate (i), whereas postulates (iii)-(v) depend necessarily on (ii). As a result, these postulates or premises are essentially interrelated and can be considered as foundations or elements of a theory of privatization.

Assuming that the above analysis holds, and then a theory of privatization may be simply stated as follows: If public enterprise total revenue does not cover the total costs of the production of the services it provides to the public, then this public enterprise is ready to be privatized. Why? Because some of the premises of the theory have not been fulfilled; namely, (IV) economic efficiency and (v) profitability both have been broken. The following section shows the successes of other countries that have privatized many of their public assets and enterprises. Why have their experiences achieved great success? And why have so many other countries declared their intentions of privatization? The answers to these and other questions are found in the following sections and can be taken as a confirmation of the theory of privatization stated above.

Without going into great details of other countries' experiences in privatization, it suffices to mention briefly a few of them. The United Kingdom, France, Morocco, and Egypt are among the countries that have privatized large parts of their public sectors with great success, as Amer (1995) and Daghistani (2003) have pointed out.

Amer (1995) states that the British privatization program started in 1979 and within 10 years it has succeeded in transferring about one million jobs (employees) from the public sector to the private sector, added 8 million shareholders that raised the shareholding ownership by the British from 5% to 20%, and sold more than one million public housing units to the original tenants. Furthermore, between 1979-1990, the British government sold some public assets for more than \$100 billion, and sold the British Telecom, Gas company and Electric company for over \$100 billion within the same period (*Bu-Hilaigah, 1995*). Thus, the British privatization program had achieved great successes so much so that it became a successful model for the rest of the world to follow.

Other countries followed the British model of privatization but with differing degrees of success. Megginson (1994) studied and compared the performance of 61 different establishments before and after they were privatized. These 61 firms belong to 18 different countries (*Bu-Hilaigah, 1995*) and had 32 different economic activities – including banking, petroleum, public utilities, food processing, manufacturing, petrochemicals, mining, telecommunications, transport, air cargo, sea wharfs administration, and airports maintenance. The results of the study showed great improvements in their performances in terms of their operations, financing positions, and marketing strengths without any noticeable reduction in workers employment. *Bu-Hilaigah (1995)* indicates that another study by Kikeri, et al (1995) has shown that more than 80 countries worldwide had declared their privatization programs, and that more than 6800 establishments have been privatized throughout the world since 1980, out of which 2000 establishments were in the developing countries.

Many economic studies, as Amer (1995), Galal, et al (1992) and Boycko, et al (1993) assert, show that the general performances of public establishments in many countries were disappointingly low year after year which led to huge losses that caused large deficits in government budgets thus increasing national debts. So, consequently, many countries worldwide began to think how to benefit from the skills and capabilities of the private sector in terms of economic growth. In other words, to give the private sector a bigger role to play in economic activities while to shrink or reduce the role of the state.

Some of these attitudes led many governments to conclude the following: (1) the private sector is more efficient than the state in the administration of public establishments in terms of economizing (saving) of scarce resources and raising economic growth rates, (2) that the private sector gives incentives and, hence, more capable than the state in mobilizing resources and directing people's savings toward investments in profitable projects, and (3) that the transfer of ownership from public to the private sector will remove the burden of big losses and deficits away from the government. These are some of the motives behind government's privatization programs.

As Amer (1995) indicates, the general conditions for successful privatization can be summarized as follows: (1) creating and preparing a suitable economic environment for private ownership; (2) organizing a general publicity so as to help convince both the public and the private sectors of the benefits of privatization; (3) formulating a specific plan for privatization to be implemented and executed by highly qualified persons (specialists); (4) defining clearly the objectives of privatization in order to reduce risks and strengthen the chances of success; (5) choosing the best methods and strategies; (6) preparing the public establishments for privatization.

The employees' dilemma (Amer, 1995) in public establishments is one of the most complicated problems facing any privatization program in the developing countries. The possibility exists that any privatization in these countries may be accompanied by a high rate of unemployment of the existing workforce in public establishments. Without doubt, this possibility is considered to be one of the basic factors that worry some governments and make them hesitant in the application of privatization which may lead to more complications politically and socially. Therefore, any privatization program must be based on a clear well-thought policy which takes into account how to deal with this problem if it rises as Daghistani (2003) so rightly indicates.

Luckily, from the successful experiences of other countries privatization programs, there exist several alternatives which can be used in order to avoid the occurrence of such unemployment problems. As Amer (1995) points out, some of these alternatives are: (1) to prepare a program that goes parallel with privatization so as to help the unemployed find alternative jobs; (2) to limit privatization in its first stage to public establishments that have small workforce; (3) to prepare a training program for surplus (unemployed) workers to acquire new skills; (4) to make compensations to those employees who wish to go into early retirement.

2. Privatization in Saudi Arabia

The Kingdom for a long time has been employing a practical method of commissioning or giving contracts to the private sector to execute and implement public projects and facilities. Additionally, the Kingdom has implemented two successful experiences in privatization. The first was the selling of 30% of the ownership of SABIC Company to the Saudi and GCC citizens, and the second was also the selling of 59% of the ownership of the Saudi Fertilizers Company to the employees in this company. The success of these two major experiences was obvious to all so much so that the government has gradually embarked on a privatization program, as pointed out by Al-Maneef (1995), Amer (1995), and Daghistani (2003).

The most promising and encouraging factors for Saudi privatization can be summarized in the following: (1) the Kingdom follows a completely free economic system which is governed by the Islamic Sharia where there are absolutely no restrictions whatsoever on

individual ownership as well as no restrictions on international money remittances in any form or shape; (2) the existence of a suitable environment for investments under a stable political system; (3) the development of human resources; (4) the availability of a dynamic private sector to take on the burdens of economic development; (5) economic planning through the Saudi five-year development plans; (6) the existence of mutual confidence between the private sector and the state; (7) the government's belief that the relinquishing of some public ownership to the private sector would save a lot of funds for the government; (8) the availability of an active stock market in which the citizens have bought shares in more than 90 holding companies whose capital exceeded SR66 billion by the end of 1993; (9) the availability of big liquidity in national commercial banks estimated to be about SR103 billion by the end of 1993 which can be utilized in all aspects of investment, as shown by Amer (1995).

The motives behind Saudi privatization program are many and varied. To name just a few of them, the following are the most important ones: (1) to encourage the participation by the Saudi citizens in vital economic and social decisions; (2) to improve and raise the level of economic activity and productivity in the privatized establishments; (3) to infuse new bloods into the economic structure through the participation of the private sector in the ownership of public facilities and benefit from the new skills and qualifications available; (4) to protect private capitals from going abroad and give them the opportunity to invest in the national economy; (5) to let the price system rule the market activities which lead to the efficient allocation of wealth and resources among all the sectors of the national economy; and (6) to alleviate the financial burdens on the State and, thus, let the government concentrate on strategic sectors of security, technological innovations and planning for the long run as well as on revising of the rules and regulations for the benefit of the whole country, as indicated by Al-Maneef (1995) and Daghistani (2003).

The government is gradually giving the private sector a bigger role to play in the national economy through the transfer of public ownership of some establishments that have commercial characteristics. Some are already privatized such as the Saudi Telecommunication Company (STC); others such as the Saudi Arabian Airlines (SAUDIA), the railroad general organization, and transport system are being proposed for privatization. The administration and operation of maintenance projects, and other government services establishments such as hospitals, airports, and seaports are all given to the private sector. Hence, future prospects of privatization are very bright for the private sector to participate in, and meanwhile the Saudi citizens are being prepared through mass media and other channels to take part in future process of privatization.

3. The Relevant Hypotheses for this Research

Having reviewed the relevant literature on privatization and developed the theoretical background, we are ready to state the relevant hypotheses for the purpose of empirical estimation of this study. There are four hypotheses relating to the main questions directed to the employees of SAUDIA in various regions of the country. They are postulated and tested as follows:

1. The impressions of the SAUDIA employees about its privatization are expected to be positive with respect to incentives.
2. The impressions of the SAUDIA employees about its privatization are expected to be positive with respect to personal development and better training opportunities.

3. The impressions of the SAUDIA employees about its privatization are expected to be positive with respect to better utilization of its resources.
4. The impressions of the SAUDIA employees about its privatization are expected to be positive with respect to offering better services for passengers.

III. METHODOLOGY AND EMPIRICAL RESULTS

For the purpose of comparability, a questionnaire approach was chosen for this study with questions adapted from the studies found in the literature. The sample population of our study was Saudi Arabian Airlines employees. Primarily those who are working in the Eastern region and in the main headquarters in Jeddah. The sample was randomly selected from a total work force of 24,000 staff employees. We were measuring their perception about the prospects of privatizing Saudia. Completed questionnaires were collected via the internal post of the company. The respondents were requested to complete the survey and mail it directly to the researcher via the free of charge post of the company. This procedure ensures high response rate with reliable answers and free participation. Out of the 500 mailed questionnaires, we received 228 questionnaires, out of which seven were discarded for incomplete data, which represent an effective response rate of 44%.

1. Questionnaire

The questionnaire comprised of four independent constructs: (1) an increase of material and non-material incentives, (2) development and training of employees, (3) optimal utilization of resources, and (4) improvement of services rendered. And one dependent construct: The impression of Saudia employees about privatization.

2. Analytical Techniques

Factor analysis with varimax rotation was utilized to analyze the questionnaire. This method is particularly useful when the purpose of the analysis is to condense a large number of items describing a construct into a smaller subset without substantially compromising its content validity. The factor analysis detected relevant factors for (1) material and non-material incentives, (2) development and training of employees, (3) optimal utilization of resources, (4) improvement of services rendered, and (5) Saudia employees' impression on privatization. All scale items that loaded less than 0.6 were excluded. The factor with the highest Eigen value was retained to identify items that comprise each of the above mentioned constructs under examination. (See Table 1). Using a five-point scale, the respondents were asked to rate 16 items responsible for the potential benefits of privatization and five items responsible for their impression toward privatization in general. The response categories were arranged as follows: strongly agree, agree, do not know, disagree and strongly disagree. They were coded from a 1 to 5 response. A composite score was calculated for each of these items.

3. Data Validity and Reliability

The measurement instruments in this study were drawn from a previous validated questionnaire. In addition, over ten staff employees were involved in a face-to-face meeting to pilot test the questionnaire and they all agreed that the items were representative measures of constructs under investigation. Minor modifications in the description of these constructs were made from the feedback obtained by the participants in efforts to further increase their content validity. Reliability measured by the use of crouback alphas shared reasonably high

internal consistency. The reliability scores for the five constructs were: 0.87, 0.85, 0.79, 0.79 and 0.90 respectively. These met the minimum reliability level standards. (see Table 1)

4. Hypotheses Test

Pearson's product-moment analysis was the statistical tool for the study hypotheses. In this research, all hypotheses were tested using a minimum significance level of .05. It is the most widely used level of significance in social sciences.

H1. The impressions of the Saudia employees about its privatization are expected to be positive with respect to incentives.

This hypothesis was supported. Table 2 shows a significant positive correlation between the incentives factor and the five-item factor for employees' perception about privatization. ($r = 0.630, P \leq 0.05$).

H2. The impressions of the Saudia employees about its privatization are expected to be positive with respect to personal development and better training opportunities.

This hypothesis was supported. Table 2 shows a significant positive correlation between the three items employee's development and training opportunities factor and the five-item factor for employees' perception about privatization. ($r = 0.442, P \leq 0.05$).

H3. The impressions of the Saudia employees about its privatization are expected to be positive with respect to better utilization of its resources.

This hypothesis was supported. Table 2 shows a significant positive correlation between the two items of optimal utilization of resources and the five-item factor for employee perception about privatization ($r = 0.608, P \leq .05$).

H4. The impressions of the Saudia employees about its privatization are expected to be positive with respect to offering better services for passengers.

This hypothesis was supported. Table 2 shows a significant positive correlation between the only item that represent improvement of services rendered factor and the time item factor of employee perception about privatization. ($r = 0.542, P \leq 0.05$).

IV. SUMMARY AND CONCLUSIONS

1. Summary of Findings

Using the empirical model and its relevant assumptions for empirical estimation, the evidence suggests that our postulated expectations have been empirically confirmed. This means that the empirical results of the study show that the reactions, views, and attitudes of the SAUDIA employees about the prospects of privatization of SAUDIA were positive, as expected. Thus, it has been found scientifically that there exists a positive relationship between (a) privatization of SAUDIA and better incentives offered to the employees in the future; (b) privatization of SAUDIA and efficient training and better development opportunities; (c) privatization of SAUDIA and efficient allocation of its scarce resources (both human capital and physical capital); and (d) privatization of SAUDIA and improvement of services for passengers and all of its other clients.

2. Policy Implications and Recommendations

In general, the implications of the empirical results of the study indicate that the SAUDIA employees appear to be ready and prepared to accept the privatization of their company. Based on the empirical findings of this study, the following recommendations seem to be in order.

It is, here, recommended that (1) the process of privatization of SAUDIA be initiated gradually; (2) that the company be directed and set on the proper course of commercial operations; (3) that any negative effects of employees' instability in their employment and their fears of future uncertainties be thoroughly addressed and taken into consideration well ahead in time prior to the initiation of privatization; (4) that pecuniary and nonpecuniary benefits the employees used to get before privatization be retained after privatization; (5) that those employees found in excess of the company's employment requirements be re-allocated and re-trained in other positions which would raise their productivity to the company; (6) that the employees be allowed to take part in the process of privatization of their company by granting them free stocks in the company or, at least, allowing them to own some stocks (shares) on easy terms (e.g., on long term installment payments); this would give them the feeling of participation in an organization which they partly own, thereby helping them reduce their fears and uncertainties of their future.

3. Suggestions for Further Research

It would seem scientifically logical for future research to investigate and study the views and attitudes of the employees in those public establishments intended for privatization in the foreseeable future. Any future study ought to compare the situations of the establishment before and after privatization was carried out; such future research should investigate areas such as company's performance, its economic efficiency, any change in employment, the company profitability, etc., before and after privatization of the firm.

The basic objectives of future research in these areas should be well defined and clearly spelled out. It must be comparative in nature in order to know whether privatization of the intended public establishments has really achieved any success in economic efficiency and resource allocation, and whether or not the basic objectives of privatization have, indeed, been attained.

Table 1: Reliability and Factor analysis results

Code	Variable Loading	Variable Name	Name of Factor	Reliability
V11	0.737	Achievement of Personal Ambitions	Increase of the Material and Non-Material Incentives (Independent Variable)	0.8720
V12	0.724	Increase in Acknowledgement Certificates and Recognition		
V13	0.778	Increase in Bonuses and other Allowances		
V14	0.740	Increase in Monthly Salaries		
V22	0.760	Better Knowledge of English Language	Development and Training of Employees (Independent Variable)	0.8574
V23	0.833	Knowledge of Computer and Modern Equipment		
V24	0.698	Knowledge of Modern Administrative Techniques		
V43	0.795	Provision of Greater Seat Capacity	Improvement of Services Rendered (Independent Variable)	0.7913
V44	0.743	Provision of Good Cargo and Post Services		
V51	0.734	Privatization Boosts the Role of the Private Sector	Impressions of Employees about Privatization (Dependent Variable)	0.9093
V52	0.806	Privatization Accelerates Development in the Country		
V53	0.712	Privatization is Important for the Public Sector		
V54	0.815	Privatization Boosts the Competition Ability		
V55	0.770	Privatization is Important for the Economy		

Table 2. Results of Hypothesis Testing

Independent Variable	Dependent Variable	Correlation
1. Increase of Material and Non-Material Incentives	Employees Impression about Privatization	.630
2. Development and Training of Employees	Employees Impression about Privatization	.442
3. Optimal Exploitation of Resources	Employees Impression about Privatization	.608
4. Improvement of Services Rendered to Clients/Productivity	Employees Impression about Privatization	.542

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