

Sustainable Privatization Framework with Special Reference to India and Emerging Democratic Economies

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Abstract

Privatization, as a policy, faced lot of resistance and risks for government while privatizing state enterprises. Emerging democracies faces a relatively different challenges to privatization in comparison with developed countries. The success of privatization is different in different countries. The mammoth research on privatization rarely discussed the sustainability of privatization policy in the democratic system. In this context, this research would like to find an answer to what are the factors that influence sustainability of privatization? There exists a need for a holistic framework for sustainable and soft implementation of privatization plans. In this context, this research becomes highly relevant for such countries which are struggling in privatization of their state enterprises. This conceptual research article, is a qualitative research done, on emerging democratic economies, in an effort to identify the factors which influence sustainability of the privatization of public sector enterprises, using secondary literature. The proposed framework would like to answer the multidimensional external and internal challenges arising from politics, economy, stock market, society, labor unions, privatization process and method.

Keywords: Sustainable Privatization model / Framework, Disinvestment Management, Indian Privatization, Privatization Management.

ABOUT PRIVATIZATION

According to Megginson & Netter (2001), privatization is the deliberate sale of state-owned enterprises (SOE) or assets to private economic agents by government. A renowned economist Joseph E. Stiglitz (Nobel Prize winner in 2001) argues that privatization involves the transferring the government ownership in public sector enterprises to private hands (Stiglitz, 1992).

The world has moved from investment to disinvestment in public sector enterprises. This disinvestment or privatization is in progress at different level in different countries. Some countries face more challenges and risk than others. Despite all the rhetoric about privatization, only few European countries could achieve better level of privatization. The consistency and sustainability of the privatization is one of the major concerns associated with emerging democracies.

The credit of modern privatization goes to Margaret Thatcher government of England. England has started privatization in the year 1979 with the sale of BP (British Petroleum), British Aerospace (1981), and National Freight Corp (1982) and so on. England has shown the benefit of Privatization (Peter Schofield, 2002). Economists and Economic Institutions have spread the advantages of privatization policy across the world. South American countries like Chile, Brazil, and Argentina are the other counties implemented privatization more aggressively. The Transition countries like USSR and China also initiated the privatization through voucher privatization and mass privatization to transfer their socialism system to capitalism system.

Large number of researchers have recorded the increase in economic growth, corporate productivity, and efficiency by privatization program. Much of the earlier evidence about the economic impact of privatization concerned these topics and was based on data from developed countries and later, transition countries. These findings have been brought together in two previous

surveys, by Megginson and Netter (2001) and Estrin et al. (2009) respectively. Data from opinion polls in Latin America carried out in 1998 and 2000 reveal that support for privatization, which was not very strong to begin with, has decreased over time (Nellis 2003). Privatization is one of the most important policies suggested by many economists for economic growth, development, and economic stability. However, privatization implementation associated with different level of risk in different countries. In this context sustainable policy frame work is necessary for successful privatization of public sector enterprises.

Privatization is more successful in developed and better institutional framework countries. But the same success is not seen in transition and developing countries. Transition countries are facing issues in institutional framework, regulatory challenges and corruption. Developing countries are facing more of social and political challenges. Privatization is a long-term matter, in which broad internal and external support for change, careful system planning, and delicate public acceptance is need to be developed.

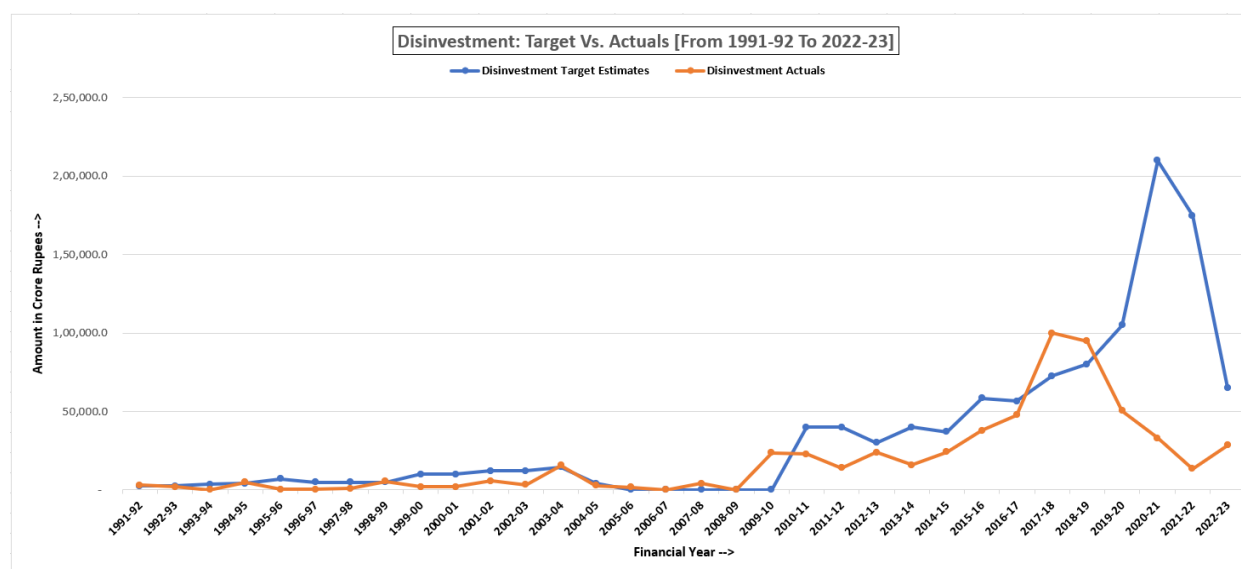
RESEARCH GAP

Privatization is one the profoundly discussed topic among the economists and researchers. Privatization as a policy extends for several years, during this period many governments with the diverse ideology will pass through the implementation of privatization policy. Due to time and situation, sustainability of the privatization will become a major challenge.

Even though Privatization is not an easy policy, it can be implemented if the policy makers understand the way it needs to be done. For this policy makers need to understand the factors associated with the policy such as strengths, weakness, opportunities and threats. Policy makers also need to learn the skill of converting weaknesses into opportunities while minimizing the threats. This strategy will enable the government to successfully pass through the challenges posed by the complex environment.

The prevailing mammoth research rarely discuss sustainability of the privatization policy. In this context sustaining of the privatization policy will become more important and the research work on the same is rarely observed in the existing literature.

DISCONTINUITY AND UNDER PERFORMANCE OF INDIAN DISINVESTMENT



Graph 1: Indian Privatization data against the target since 1991 to 2023

STATEMENT OF THE PROBLEM

Privatization is the most common and widely accepted economic policy in the world. However Emerging democratic countries are struggling for successful implementation the privatization policy. Emerging countries like India has failed in achieving its target set in yearly budgets (Refer Graph 1). Indian privatization achievement is just 50% of its target accepted during yearly budgets. Gomes, L. H (2014) Kikeri, S. (2022) has recorded the decrease of privatization in brazil and Latin America after the outburst of popular protests since June 2013.

Since the defeat of the Shri Atal Behari Vajpayee Government in 2003, Government of India is reluctant to adopt privatization aggressively. After 2014, Shri Narendra Modi Government got into more of cross selling the weak public enterprises to strong public enterprises to generate financial resources instead of real privatization of public enterprises. The privatization policy has faced several hurdles in the Latin American countries and similar resistance is observed across emerging democracies. Privatization was never a short-term policy in any country. Long term policies like privatization needs consistency and continuity in policy, the privatization success lies in continuity in the policy.

Graph 1 shows the inconsistency, uncertainty, and underperformance of disinvestment to its accepted target with special reference Indian disinvestment. (Graph 1 is based on the Table 1 data provided in appendix.) Extensive Literature review found that either limited research work or no research work on sustainable disinvestment policy in competitive democratic political environment. This research is aimed to identify and propose the common and sustainable disinvestment policy framework with reference to India and emerging democracies.

OBJECTIVES OF RESEARCH

1. To study and understand the privatization performance in India & other emerging democracies.
2. To identify the most influencing factors for sustainable privatization policy.
3. To construct a sustainable privatization policy framework with reference to India and emerging democracies.

PROPOSITIONS

1. Proposition 1: Broader classification of influencing factors on privatization policy likely to help in developing a sustainable framework.
2. Proposition 1a: External Risks likely to have an impact on sustainability of privatization policy
3. Proposition 1b: - Inappropriate Privatization Method likely to have an impact on sustainability of privatization policy
4. Proposition 1c: - Improper Privatization Process likely to have an impact on sustainability of privatization policy
5. Proposition 1d: - Sustainable factors likely to have an impact on privatization policy

RESEARCH METHODOLOGY

Particulars	Remarks
Type of Research	Conceptual Research
Literature	Secondary literature
Time Period of Literature	1991 – 2022 (selected secondary data and literature)
Sample	Emerging democracies (India, Brazil, South Africa, and Argentina).

KEY DISCUSSION AREAS

First, there is considerable variation in the pace at which Emerging democracies have privatized their State-Owned Enterprises (SOE). Despite all the rhetoric about privatization, only few countries could perform better in privatizing their enterprises. This raises the question, why some countries are struggling to privatize the SOE's unlike developed countries.

Second, we are often interested in what privatization methods are responsible for keeping the privatization policy alive irrespective of change in government and leadership with diverse ideology. At what level privatization becomes a mass discussion topic, what would be the threshold level to keep the privatization out of mass discussion? When does general

public start getting hurt from the privatization plans? How does diverse methods influence privatization plans and its sustainability?

Third, the entire process of privatization matters a lot. Any kind of erroneous process leads to risk. For example, if transparent process is not followed, then it may lead to miscommunication and rumors which benefits resistance or opposing forces. Likewise, privatization authority needs to have accountability and preparedness during execution.

Fourth, if Privatization takes longer period then, what factors can sustain the policy? What actions or what framework can keep the privatization on the table forever is more important? This research has identified certain factors as critical for sustainability of the privatization.

Privatization policy specifically face multiple internal and external challenges, the success of the privatization policy will depend on the government's ability to address all these challenges and to ensure that the survival of the policy for longer period.

EMERGING DEMOCRACIES

Privatization is easier and faster in less democratic societies (Chen, Y.1996). However emerging democratic economies will have to address several risks and challenges for economic reforms and privatization. In this research, we have considered emerging democratic economies. These countries have involved in democratic process for electing the government through elections, but are still grappling with issues such as corruption, weak institutions, and limited economic progress along with resistance to economic reforms. These represent countries such as India, Brazil, South Africa, Argentina etc. The evidence of struggling Privatizations is recorded by multiple scholars. India has been underperforming to its budgetary targets since inception of the policy (Refer Table 1 for Privatization in India since 1991). Gomes, L. H (2014) Kikeri, S. (2022) has recorded the decrease of privatization in Brazil and Latin America after the outburst of popular protests since June 2013.

Due to electoral system political parties will have a natural fear for electoral defeat if the privatization does not go well among voters. Where as in authoritarian regime, resistance to privatization and social issues are different due to the absence of electoral system. Hence this sustainable privatization framework emphasises on emerging democracies which are still struggling to implement privatization due to multidimensional challenges.

WHAT ARE THE FACTORS THAT INFLUENCE PRIVATIZATION POLICY?

Proposition 1: Broader classification of influencing factors on privatization policy likely to help in developing a sustainable framework.

Do the stakeholders oppose the privatization policy itself or the way it is been done? A Deep analysis may result into surprise answers. Stakeholders' opposition to privatization policy may be because of the way it was done. There may be inappropriate and erroneous method or process hidden in the privatization plans. It is necessary to identify the different type of risk and challenge areas and create the broader classification to solve the root cause of the resistance or opposition to the privatization. The broader classification will simply the process of identifying and understanding the source of risk and challenge area.

Extensive literature is available on challenges from Politics, labor union resistance, stock market risks, economical risks and social challenges. These risks are widely discussed by Enrico C. Perotti (2001), Robert F (2002), Hall, D et all (2005), J.Nellis (2006), P Jalette (2012). These factors can be called as external factors and these factors are out of government control or privatization authority. Neither Government nor privatization authority has a direct control on these factors. It is proposed to classify all these risks as external risk factors. Government can avoid, adopt and modify strategy to face these external risks.

Privatization Process is the other area where challenges and risk emerge. Privatization Process involves selecting, preparing, processing, communicating and execution stages. All the stages are critical and to be well managed. Any kind of controversial privatization and low transparent process can trigger high threat to the privatization plans. This "Privatization Process" is under the control of government or privatization authority and it becomes an internal factor. Simple, accountable and transparent process can keep privatization away from rumors and allegations. Various challenges arise due to erroneous privatization process. All these processes are categorized as risk under privatization process.

The other critical area to address is Privatization method. There are multiple methods for privatization. Government or Privatization authority can choose any desirable method for privatization. However, each privatization method has its own pros and cons. Hence selecting the privatization method should be based on the ecosystem is necessary. Inappropriate method may drag the external forces into the issue and privatization becomes more challenging and complex. The authors propose method related challenges under the third category for privatization sustainability. These factors are under the control of government or privatization authority and can be altered if required. Megginson & Netter (2001), have discussed process and methods in their research paper titled “*From State to Market: A Survey of Empirical Studies on Privatization*”.

Privatization is a multi-decade project, privatization policy passes through a diverse ideology-based government during its implementation, and hence certain factors play a vital role in sustainability of the privatization. How the excessive use of natural resources is dangerous to the environment sustainability in the same way excessive use of privatization proceedings (usually to cover up fiscal deficit) will become harmful to the sustainability of the privatization policy. Certain factors will have an impact on sustainability of the privatization policy and these factors are semi controllable in nature. These factors have been denoted as stability factors in the fig 1.1. These stability factors are derived from self-control and disciplinary approach. A set of standard principles and guidelines can sustain the policy for a longer period without much upheaval.

Figure 1.1 represent the broadly classified factors and relation with sustainable privatization policy. The classification is simple and gives a clear picture of source of risk and challenge areas to the privatization sustainability. The authors believe it is important to consider variables at four levels; External risks, privatization process, privatization method and stability factors. The combined effect of these factors will have a critical effect on privatization sustainability. This broader classification accommodates all the influencing variables under one framework. This classification is simple and extensive in explaining the influencing factors on privatization plans. This conceptual construct is easier for understanding the factors influencing on sustainability of privatization in Emerging democracies. The detailed explanation for each factor with supporting literature along with specific propositions is explained further. This research also discusses on why some factors withhold the privatization, how privatization is implementation matters, and what factors determine the sustainability of privatization.



Fig 1.1: Macro Factors influencing sustainable Privatization Policy

EXTERNAL RISKS

Proposition 1a: External Risks likely to have an impact on sustainability of the privatization policy

Privatization never been an easy program, since beginning of the program, it has faced several types of oppositions. According to Nellis (2006), Privatization won many kinds of war but failed to win political war. Apart from the Political opposition, Nellis pointed at resistance from labour organizations, civil society movements against privatization, corruption, legal battles, price rise and unemployment concerns.

The risk factors which are outside the premises of direct control of government can be classified as external factors. These factors are not under the control of government or privatization department. Government will have to respond to the external factors. These factors will have significant effect on the privatization policy in the short and long run. External factors such as political environment, social challenges, labour unions resistance, stock market risks and economic condition are coming under external risks.

Karnik (1999) found Political risk involved in privatization and resulting into loss of potential re-election chances. The authors recommend integration of electoral political approach with the public interest approach. A model of political support is proposed which peruses public interest and does not jeopardize the ruling party's re-election prospects.

Hall et al. (2005) recorded the Local civil society mobilizing people against the privatization assuming the conflicts between privatization and public investment, and the responsibility of the state towards community in the basic sectors. Such opposition has involved dynamic interactions with existing political parties and other stakeholders in the eco system. Political resistance increased due to economic, social, and technical problems associated with the privatization implementation process.

Newly elected government of India in 2004 elections has assumed that people are not in favor of privatization and dissolved the department of disinvestment. The defeat of Shri A B Vajpayee government in the general election has created the opinion that privatization is not acceptable to the voters. With the change of the guard at the Central government of India, economic policies and political equations have changed and shown that disinvestment or privatization is political dependent.

Calabrese (2008) advises the consensus-building process at every stage, from the initial conception and strategic planning through the implementation. When preparing for privatization initiatives, a government and its advisers should make substantial efforts to engage political parties, managers of public enterprises, unions, workers, civil servants, business leaders, potential investors, national and international civil society organizations, and consumers about the program's operations and benefits (Sheshenski & Lopez-Calva (2003)). This carefully designed consensus approach may help in reducing the resistances and potential challenges for the privatization policy and helps in sustainability of the privatization plans.

Table 2 in Appendix, collates the previous studies from various countries and summarizes the 'External Risk Factors', involved in Privatization Policy and their influence. Above discussed examples clarify the importance of managing the external risk for a successful privatization. If external risks are not managed appropriately then sustainability of the privatization policy will be under great danger especially in the emerging democracies. Government can avoid, adopt and modify strategy to face these external risks.

PRIVATIZATION METHODS

Proposition 1b: - Inappropriate Privatization method likely to have an impact on sustainability of the privatization policy in emerging democracies.

Welch, D. et al (1998) argue Case- by-case privatization, which involves selling government shares in state-owned firms through public share offerings, trade (third-party) sales, or mixed sales. The strong argument is one method does not suit all. Applying an inappropriate method may create upheaval in the eco system and threaten the sustainability of the privatization policy.

Privatization has many approaches to achieve its goal. These approaches are classified as soft, moderate and aggressive methods. This classification is based on the level of stakeholder inclusion and speed of privatization. Aggressive methods of privatization refer to a set of policies and strategies employed by governments to transfer ownership and control of public assets and services to private entities in a rapid and forceful manner. Soft methods of privatization refer to slow and accommodative approach. Moderate methods balance between soft and aggressive methods. Different countries have adopted different methods for their privatization. One solution does not fit all in the case of privatization. Arben Malaj (2003) has recorded diversified methods across different countries. Popular methods are Public offers, Strategic Sale, Voucher privatization, Management Employee buyout and sale through mutual funds. Appropriate Privatization Method based on the ecosystem may sustain the privatization policy for longer period. It is the balanced approach helps to keep the policy alive. Either excessive force or excessive soft approach may harm the sustainability of the privatization policy. (Ram Mohan, 2004).

Extensive literature is available on different privatization methods. Table 3 in Appendix, collates the previous studies from various countries and summarizes the challenges with 'Privatization Method', from the existing literature. Privatization authority is required to critically evaluate each method against feasibility to the economic and social condition of the country. Right Fit is more important to a specific eco system. Hence choosing the right fit is more important for sustainability of the privatization of policy. For instance, Sheshenski et al. (2003) have explained the benefit of full privatization over partial

privatization. However, does this approach suit to the host country eco system, matters more than blindly accepting the Full privatization as a best strategy?

Indian government went more aggressive on strategic privatization during 1998 – 2004. In the subsequent election, privatization became a major issue and has harmed the prospects of then ruling BJP party for its re-election chances. In 2004 Indian general election, Indian Congress Party alliance came to power, and observing the social disaffection over privatization policy, congress party government scrapped the department of disinvestment and disinvestment policy during 2004 to 2009. Excessive force through the strategic privatization has derailed the privatization policy in India, hence sustainability of the method should be verified before picking a privatization method.

Emerging Democracies exhibits a different pattern of social behaviour towards privatization than the transition countries or developed countries. Citizen support is usually less in emerging democracies towards privatization. Hence soft privatization methods may be appropriate than the hard methods. Soft methods follow the gradualism and privatization takes many years to complete the full sale. However, this gradualism will help to avoid high resistance and risk to privatization plans. Soft methods like Public Offers, Strategic Sale, Management Employee Buyout (MEBO), Institutional Sale, Joint ventures – mergers and Private Equity infusion are proposed as more sustainable. These methods are opposite side of instant sale and does not trigger an anxiety in labour or in civil society.

PRIVATIZATION PROCESS

Proposition 1c: - Improper Privatization Process likely to have an impact on sustainability of the privatization policy

A process is a series of actions or steps taken to complete a particular task. If this process is erroneous, then process will threaten privatization. Effective privatization process is extremely important for the success of a privatization program, the process must maintain transparency in every transaction. The public should know if the program is being carried out in a fair and honest manner. A lack of transparency can lead to a perception of unfair dealing – even where it does not exist – and to popular opposition that could threaten not only privatization, but also the government's credibility in general. The lack of transparency is often associated with corruption in privatization.

Extensive literature is available in favor of transparent privatization policy. Table 4 in Appendix, collates the previous studies from various countries and summarizes the challenges posed by 'Privatization Process', and its influence on the Policy. Lack of transparent policy helps political opponents to create rumors and corruption allegation which can be fatal to the privatization policy. Lora & Panizza (2002) recorded the lack of transparency leading to allegations and cases of corruption, low transparency provides an ammunition to opponents, creates backlash from investors and general public, and threatens to halt or even reverse privatization plans. In Latin America, surveys have documented the decline of support for privatization indicates dissatisfaction with the perceived corruption in the process. Wood (2004) finds that corruption in privatization program creates a popular opposition to privatization program. Author also points that wrong process and methodology results into opposition. Wood cites examples of Bolivia water privatization and Tanzania Electric supply company privatization. As per Calabrese (2008), transparent and competitive sale procedures can reassure people who fear that public assets are being transferred to private operators at prices well below their true value. When these practices are not transparent, opponents of privatization are free to make false claims regarding the procedures that can worry or anger key constituencies.

Privatization authority has the responsibility to ensure error free privatization process. The process required to address potential issues arising during privatization. Privatization authority need to manage the communication and potential legal risk of the privatization plans. Communication is critical to keep all stakeholders aligned and supportive of the privatization. Importance of the communication is well explained by World Bank (2008) in its working paper titled 'Strategic Communication for Privatization, Public-Private Partnerships, and Private Participation in Infrastructure Projects.

Legal risk is proposed to be part of privatization process and not under the external risk. The reason for this classification is government is part of creating law system. However, it is not fully under the control the control of government once the law is created and approved in the democratic house. Hence legal risk will become semi controllable variable with reference to privatization. It is the privatization authority's responsibility to look into the potential legal risk to any privatization plans. Preempting the risk well before it slips into the hands of resisting forces is necessary. Malaj & Mema (2003) emphasizes on institutional and legal frame work along with standard process for sustainable privatization policy. The adoption of legal legislation gives political legitimacy to privatization authority and gives legal authority to act as required (Estrin et al., 2009).

Privatization is not an instant project; it needs a lot of off field activity. Preparing the minds of all stakeholders for privatization along with risk mitigating plans are necessary. Field forces need to be identified for better handling of the situation. Field force analysis helps to identify favorable and unfavorable forces. Privatization authority need to develop a clear policy framework which shall include legal and regulatory aspects of private sector participation. Privatization authority need to conduct a feasibility study to assess the financial and economic viability of the assets or services to be privatized. This includes analyzing the current market conditions, assessing the competition, and identifying any regulatory or legal hurdles that may need to be countered. Well prepared privatization department can handle risks and challenges arising out of opposing forces and helps to sustain the privatization policy. Estache, A., & Alexander, I. (1999) has recorded the advantage of better regulatory framework for privatization in Chile. The success rate has increased due to clarity in the policy. The consistent, transparent, and systematic approach to privatizations within a country is fundamental to instill confidence across different bodies and levels of government. The privatization department requires to nurture skilled talented resource to counter the potential challenges, else inefficient team and process shall derail the privatization plans thus resulting into unsustainability of the privatization policy.

STABILITY FACTORS

Proposition 1d: - Stability factors likely to have an impact on privatization policy

The authors believe that Stability factors refer to the various social, economic, market and political considerations that are critical to ensuring that privatization policy do not deviate from the actual objective and keep the policy for several decades to achieve the successful sale of public sector enterprises. Sustainability factors are important to consider in decision-making processes, whether at the individual, organizational, or governmental level, to ensure that actions are taken in a way that supports long-term societal well-being and survival of the privatization policy irrespective of different political or market ideology.

At macro level, the literature indicates that certain factors are positively related to the likelihood of sustaining the privatization.

Identifying the sustainable factors to privatization policy requires a comprehensive and holistic approach that considers the political, social, and economic impacts of the policy. Sustainable factors also are required to address the appropriate method and process approach to privatization plans. Table 5 in Appendix, collates the previous studies from various countries and summarizes the ‘Sustainability / Stability Factors’, involved in Privatization Policy and their influence. Based on the extensive literature survey, following factors are identified as necessary factors for sustainability of the privatization policy.



Figure 1.2: Stability Factors on sustainability of privatization policy

Diversified Methods

Privatization can happen through multiple methods. Each method has its own pros and cons. All methods are not fit to all the situations and eco system of the country. Selecting the feasible method can do wonder in the particular eco system. While selecting the method, feasibility must be evaluated. Appropriate Privatization method, based on the ecosystem, may sustain the privatization policy for longer period. Sapat.A (2007) has recorded that growth of reluctance on privatization among Indian citizens and governmental elites to embrace all forms of privatization whole-heartedly. For this kind of challenges, the better solution is diversified method and gradualism instead of instant sale and single method of privatization.

Assumed Bell Curves for Privatization Resistance

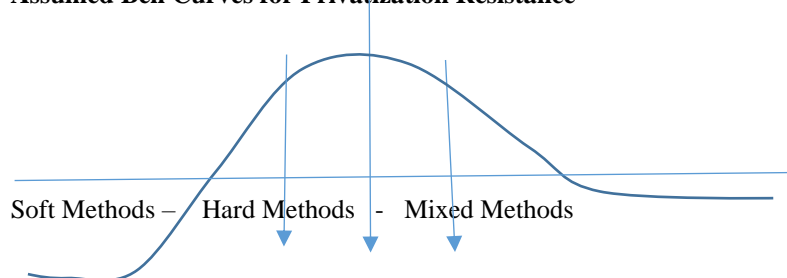


Figure 1.3: - Bell Curve reflecting resistance for different methods

The privatization resistance can be represented using the bell curve. Figure 1.3 is reflecting assumed resistance from stakeholders to different type of privatization methods. Hard methods may create anxiety in labor and discomfort and disaffection among citizens towards privatization hence leads to very high resistance. Mixed methods of privatization lead to moderate level of resistance among all stakeholders. Mixed methods provide an opportunity to defend well hence low resistance. Soft methods may find a support from the stakeholders, however not pursuing enough privatization results in other economic problems, hence stakeholders support slowly decreases to the government economic policy. Since 2014, Government of India is following multiple privatization methods such as public sector exchange traded funds, cross selling to another public sector, follow on offer, share buy back and so on. These multiple methods are successful in keeping people attention away from privatization. Hence, low resistance and policy becomes sustainable.

Balanced Targets

By the 1980s, privatization emerged as a tool to reduce the budgetary burden of SOEs and improve performance (Sunita Kikeri, 2022). Large Economists have a strong recommendation in favor of privatization; however, government or privatization authority required a careful approach with the privatization plans. Privatization carries a high resistance among labor unions and discomfort among general public. Hence acceptable level of privatization may help to hold back the labor resistance and general public discomfort against privatization. There are examples observed in India and Latin America against privatization due to aggressive privatization which resulted into political risk and unsustainability of privatization. Slow and steady privatization will keep the topic out of public attention and discussion by that political and social threats will reduce and privatization policy sustains.

Saeed Moshiri & Abdella Abdou (2009) has made attempt to investigate the impact of privatization on economic growth in developing and transition countries. For his studies, the author used World Bank data on 117 countries. The author identified that country with consistent privatization policy programs can signal and create a better business environment than countries with a stop and go programs. One of the ways in which governments can exercise strategic choice is through decisions about how, where, and how fast to privatize (Zahra, Ireland, Gutierrez and Hitt, 2000, Ramamurti 2000). It is thus useful to view privatization as a multidimensional construct (Zahra et al., 2000).

Timing and Sequencing of the sale

Selecting a company for privatization is critical and should address the multi-dimensional risks and challenges. Privatizing the company for industry growth at the cost of political threat may not be the intelligent decision. Avishur (2000) discusses aggregate social welfare and stakeholder benefit along with income distribution and the production efficiency aspects of the privatization process. Author advices on identifying the critical decision variables and political tradeoffs during privatization.

It is observed that privatization of smaller firms creates a lesser risk than the larger firms. As the larger firms will have more political and social importance than smaller firms (Earle, J et al. 1994).

The Situation and timing of privatization play a significant role. Business and political situations differ from time to time. It is up to change agent to make use of favorable times for privatization implementation. During the economic boom, government may earn more from its privatization decisions. Government may further gain benefit by involving Public Sector employees through issuing ESOPs. More the participation from PSU employees, better the support for privatization policy. Political situations in the country also differ from time to time. The Government may choose least adverse situation for its privatization program. The other important factor is the level of competition against a selected public sector enterprise. If PSU has more competition, it may lower the value of public sector enterprise. Hence Change agent needs to decide privatization phase depending on the prevailing specific industry environment in the country.

Strategic Communication

The most significant factor in privatization is Communication, if it is a strategic communication then success follows privatization. There are sufficient evidences for cost of ignoring communication with stakeholders during privatization. Sawagvudcharee (2012) has recorded the misinformation against privatization of Provincial Electricity Authority (PEA) in Thailand by outside self-interested agents. This kind of false and irrelevant rumors resulted in opposition against PEA privatization. Hence privatization authority and government need to engage in strategic communication through all the available modes of communication channels. Calabrese (2008) illustrated the importance of open platforms for stakeholder engagement and dialog by employing communication strategies and tools. Communication works and help sustain the policy. Communication activities for the range of private sector participation initiatives are more than just “public relations.” Their challenges and obstacles cannot be solved with traditional public relation tools, such as press releases, press conferences, and lobbying activities. Privatization programs require a carefully conceived and systematically applied approach to communication—one that integrates communication analysis and planning at each stage of the design and implementation. When used effectively, strategic communication can significantly increase political and social sustainability by creating space for dialog and stakeholder participation in the decision making process (Daniele Calabrese, 2008)

Excess dependence on privatization proceedings

Privatization is not the favorite agenda of majority politicians across the world; however, privatization becomes critical to cover up the fiscal deficit in many countries (Megginson, 2001), This situation pushes the government in favor of privatization and compel the governments for privatization action. Public sector inefficiency and under productivity are other secondary reasons for government privatization decisions. Privatization proceeds can become one source but it should not be treated as only the source for covering up the fiscal deficit. The government or the Privatization authority should not be over dependent on privatization proceeds to cover up fiscal deficits, government required to identify other sources for rising the funds. Any kind of excess dependence unites the opposing forces and strengthen the opposing forces and becomes obstacle to successful transaction. Excess privatization attracts citizen attention and pushes the citizens to the opposite side of privatization. Opposition usually come from those groups who have vested interests in keeping the status quo, from those who are ideologically opposed to privatization, or, naturally, from the government’s political opponents.

Restructuring and Preparation

Spontaneous privatization may bring different kind of a political risk to the ruling government and to the privatization authority. In emerging democratic economies, if government does not continue the privatization then it may have to depend more on borrowings to cover up the fiscal deficit which increases inflation. High inflation society usually disfavor the ruling government and becomes political threat for the political stability hence government and privatization required to continuously engage in restructuring and preparing the state enterprises for privatization in a planned manner.

The motivation behind the privatization comes from high fiscal deficit, public sector inefficiency and under productivity. Rising funds through privatization for other expansionary projects may be noticed in certain rare cases. Government and privatization authority are required to involve in ground preparation for future sale of public enterprises. The preparation may involve either restructuring or corporatization of public enterprises. Calcagno et al. (2006) has argued in favor of enterprise restructuring before privatization by taking example of Romanian Steel Industry. As per Ashkeboussi, R et al (2007) privatization in Latin America and the Caribbean failed to meet its intended goals, and successful privatization plan is indeed related to appropriate economic reform and effective macroeconomic stabilization policies. The economic transformation from centrally planned economy to market based economy may have many issues and need to be addressed very carefully in

early stage for successful privatization. The right preparation lays the ground for future successful privatization else spontaneous privatization could be disastrous for the privatization policy. Hence Complacency during good times may lead to devastation at needy time.

PROPOSED MODEL FOR SUSTAINABLE PRIVATIZATION POLICY

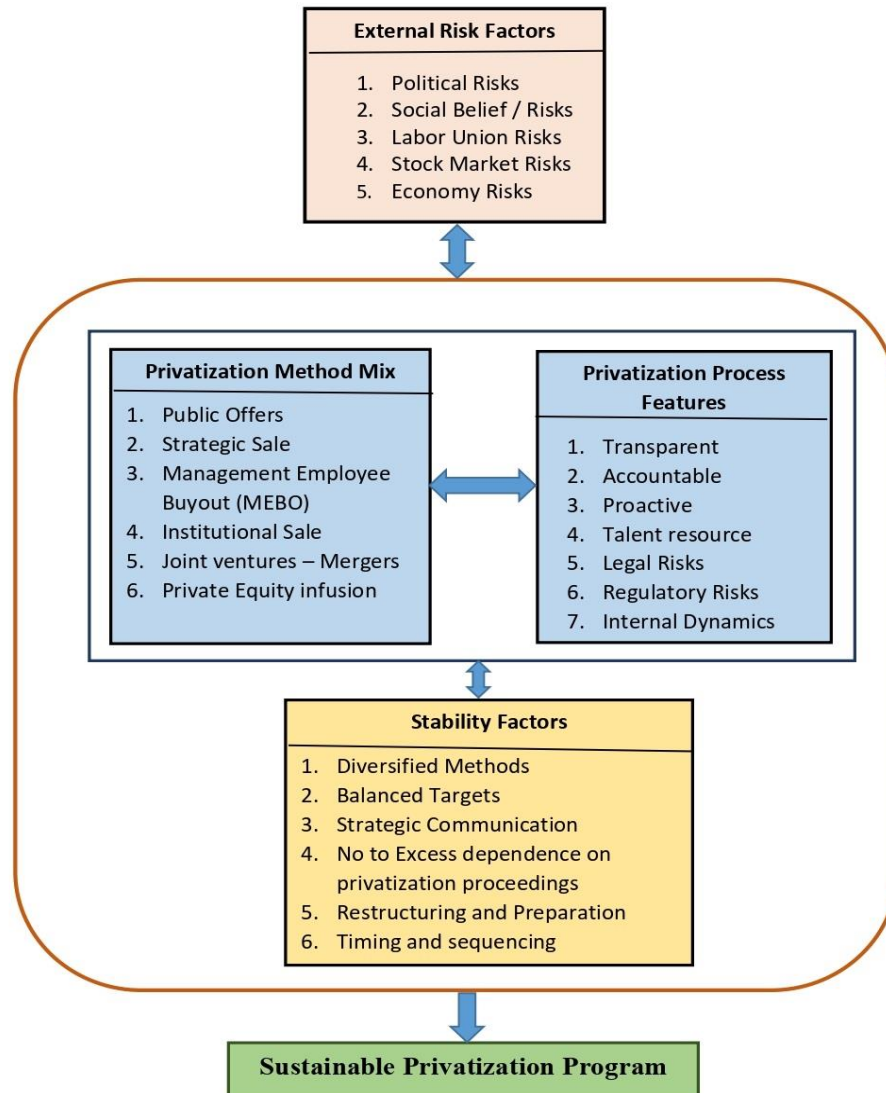


Figure 1.3: Proposed Framework for Sustainable Privatization Policy

The distinguishing feature of the model is that it is dynamic rather than static. It shows that privatization policy is influenced by multiple factors and never one-shot event but a process that can occur in stages. As shown in the figure 1.3, a relationship loop is established wherein multiple factors connect each other during privatization, with some time lag, that affect the sustainability of the privatization policy during the period. The major set of challenges are from external environment and might involve in threatening the political stability. The second and third set of challenges are more of internal system and can be modified. The sustainability and continuity of the privatization policy is dependent on multiple factors and are interconnected with external and internal factors. The privatization authority or Government is required to address all the above explained factors to sustain the privatization policy.

RECOMMENDATIONS

1. The privatization involves change from investment to disinvestment. Change always comes with resistance and discomfort. Privatization Authority or Government should design a strategy to reduce the resistance and discomfort against privatization policy.
2. The change policy will have two kinds of actors. One set of people oppose the change and other set of people support the change. Privatization policy will have opposing and supporting people for the policy. Privatization Authority or Government is required to work in increasing the supporting force and reducing the opposing force for successful implementation of the privatization policy.
3. Understanding the eco system is necessary for successful and sustainable privatization. This understanding can happen through pilot study. Privatization authority can record the resisting forces and their version against privatization. Evaluate how strong resistance forces team and their version. Design suitable strategy to counter the opposing forces.
4. Communication is the real power during change. Keep communication with the stakeholders and educate them about the benefits that may accrue over the long run. Counter rumors and establish confidence among stakeholders. Building hope and better future can do a wonder in the privatization projects.
5. Privatization is a long-term process and privatization policy need to sustain for several decades. Privatization Authority need to design a sustainable strategy, considering the eco system of the country.

CONCLUSION

Public sector enterprises are built over a period of time with certain purpose and selling of these public sector enterprises will have to take place over a period. Motivation for Privatization are many, however sustainability of the privatization is important. Privatization literature has shown benefits of productivity and efficiency to privatized firm and increase of competitive ability in cut throat competitive market. Governments have benefited from privatization proceedings for their welfare and infrastructure projects. However, privatization is associated with resistance and political threats. A thoroughly worked strategy, method and process can reduce the risk and bring the success to privatization plans. Sustainability of the privatization policy is important and critical. Identifying, adopting and following the sustainable factors can keep the privatization alive and reduces risk associated with privatization policy. Privatization authority or ruling government should not be over dependent on privatization proceedings for covering the fiscal deficit or capital for infrastructure project. A reasonable privatization target may do well for the privatization policy and to the society.

Privatization can be possible through multiple methods, different methods suitable for different situation and eco system of the country. One method does not fit for all the countries, selecting the appropriate mix for privatization should be done through careful evaluation of the influencing and risk factors. A carefully designed privatization process can gain the support for privatization policy. In this context, the proposed privatization policy framework will come in handy for the authorities, in their pursuits for privatization. To sustain the privatization policy, privatization authority or government is required to follow and adopt policy sustainable factors.

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