

**The Interdepartmental Action Programme on Privatization, Restructuring
and Economic Democracy**

**The role of employers' organizations
in privatization**

Alan Wild

Note: Working Papers are preliminary documents circulated informally in a limited number of copies
mainly to stimulate discussion and obtain comments.

Copyright © International Labour Organization 1997

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorization, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the ILO Publications Bureau (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

Libraries, institutions and other users registered in the United Kingdom with the Copyright Licensing Agency, 90 Tottenham Court Road, London W1P 9HE (Fax: +44 171 436 3986), in the United States with the Copyright Clearance Center, 222 Rosewood Drive, Danvers, MA 01923 (Fax: +1 508 750 4470), or in other countries with associated Reproduction Rights Organizations, may make photocopies in accordance with the licences issued to them for this purpose.

ISBN 92-2-110895-3

First published 1997

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers.

The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them.

Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. Catalogues or lists of new publications are available free of charge from the above address.

Preface

This paper is part of a series of working papers published under the ILO's Action Programme on Privatization, Restructuring and Economic Democracy for use by governments, workers' and employers' organizations, development agencies, consultants, academics and managers. The ILO is particularly interested in the social aspects of privatization, structural adjustment and economic transformation. However, it is also concerned with helping all stakeholders better understand and assess the economic, political and cultural conditions that lead to the successful implementation of these reforms. Experience has indicated that in the areas of privatization and economic transformation, countries that can effectively involve important stakeholders in the process are more successful.

Employers' organizations can play a significant role in the privatization process and this paper reviews the empirical role played by employers' organizations in thirteen countries. The writer of the paper, Mr Alan Wild, finds that it is more in the area of challenges connected to change of management, than in the area of technical ownership change, that the role of employers' organizations has the largest potential to add value to the privatization process.

Examples of activities that the employers' organizations have undertaken include: promotion of enterprise reform, influencing government proposals, preparing managers for privatization, upgrading managers skills and competence and safeguarding the legal interests of directors. Further, linking companies with international investors, identifying and sharing national and international best practice and the provision of consultancies and advice to privatizing companies, are other concrete examples of what some employers' organizations have done.

Although the activities undertaken by the studied employers' organizations varied, there is considerable commonality of view in the overall roles which they believe should be assumed. Given the importance of the privatization process to employers' organizations, there is no doubt that the activities undertaken and their influence on the process could and should have been more significant.

Generally, employers' organizations in this study, have been critical of and disappointed by, government attitudes toward involvement of employers in drafting of privatisation regulations. It is suggested that the privatization process might have been more effective, more smoothly carried out or have assumed a higher level of transparency if they had been closely involved in the process from the outset.

This underscores the Action Programme's findings elsewhere, that the participatory and consultative approach to privatization and restructuring has positive effects on the transition process.

The paper and the ones by employers' organizations on which it is based, is the result of collaboration between the ENTREPRISE Department and the Bureau for Employers' Activities of the ILO.

Max Iacono
Action Programme Coordinator for Privatization,
Restructuring and Economic Democracy
International Labour Office, Geneva

Contents

Preface	iii
Executive summary	vii
1. Introduction	1
2. The objectives of the privatization process	2
3. Issues arising in the privatization of industry	4
4. The role played by the employers' organizations	6
(i) The promotion of the development of enterprise reform	6
(ii) Influencing government proposals	7
(iii) Preparing managers for privatization and upgrading their skills and competence ..	8
(iv) Safeguarding the legal interests of directors	9
5. Constraints on the ability of employers' organizations to influence the privatization process	11
(i) The level of influence of the employers' organization	11
(ii) Resources and skills available to employers' associations	13
6. A "menu for action" — A model for the effective involvement of employers' organizations in the privatization process	14

Executive summary

This paper reviews the role played by employers' organizations in the processes of privatization undertaken in 13 countries: Argentina, Cameroon, China, Czech Republic, Ghana, Latvia, Mexico, Pakistan, Russian Federation, Senegal, Sri Lanka, Uganda and Viet Nam. It is based upon reports submitted by the employers' organization in each country to the Bureau for Employers' Activities of the International Labour Office.

The privatization of previously state-controlled enterprises has been probably the most significant global economic phenomenon of the last 20 years. The privatization process accelerated rapidly in the late 1980s and the 1990s as a result of the widespread economic restructuring provoked by the increasing pace of industrial globalization and the fall of communism.

There are considerable similarities in the reported reasons for and objectives of privatization in the countries studied. Every country report noted both the inefficiency and unsuitability of the prevailing centralized/planned models to today's public expectations and market circumstances and the constraints these structures placed on the nation's ability to participate actively in increasingly globalized world trade.

In almost every case reported in this paper, the privatization process has been at the very core of economic regeneration and consequently has had extremely demanding objectives placed upon it. It is not surprising to note, therefore, that employers' organizations saw the process of privatization as the most important thing to have happened in their country's recent economic history and stressed the importance of "getting it right".

The privatization process has taken either or both of two basic forms — turning over small businesses, where these were not already in private hands, to entrepreneurs and restructuring larger businesses into commercially based operations. The technical process of privatization has been accomplished by a wide variety of means determined according to national circumstances and priorities.

In most countries the focus of government activity has been directed toward the technical issues surrounding the transfer of ownership. Indeed, governments have often sought to effect the process of ownership transfer from public to private hands as quickly as possible. Significantly less attention has generally been devoted to the overall process of privatization as a major cultural shift and a massive change initiative involving human factors which have to be planned for, implemented and then followed up if all of the objectives of privatization are to be achieved and sustained.

It is against broad change management challenges, as opposed to the technical ownership change process, that the role of the employers' organizations in the privatization process has the most potential to add value and has been examined in this paper.

Although the activities undertaken by the employers' organizations studied vary significantly in terms of their depth and influence, there is considerable commonality of view in the overall roles which they believe need to be assumed. These roles and activities accord with the view of privatization as a holistic culture change process as opposed to a relatively technical programme of ownership change. In general terms, given the importance of the privatization process to employers' organizations, there is little question that the activities undertaken and their influence could and should have been more significant.

All of the employers' associations identified the importance of the promotion of the development of enterprise reform, influencing government proposals, preparing managers for privatization and upgrading their skills and competencies and safeguarding the legal interests of directors. In addition, the issues of linking companies with national and international investors/partners, identifying and sharing national and international best practice and the

provision of consultancy and advice to companies were identified in particular countries. These issues are considered in detail in the body of this paper.

It is evident from the reports that the extent of employers' association activity in the privatization process in terms of the quantity and quality of the work undertaken and its influence varies widely from country to country. This difference is related in the main to two factors: the resources and skills available to the particular association and its prevailing level of influence in the country.

With notable exceptions, the employers' organizations have been generally critical of, and disappointed by, government attitudes toward the involvement of employers in the drafting of privatization regulations. More than one report suggested that the process of privatization might have been more effective, more smoothly carried out or assumed a higher level of transparency had they been closely involved in the process from the outset. The willingness of government to adopt an involvemental approach is extremely helpful to representatives of employers. A less involvemental government attitude does not however prevent the employers' organization either from making its views known or from undertaking promotional or supportive work associated with the privatization process. Put simply, the privatization of industry is far too important to the employers' organizations to rely on invitations by government to involve them in the process.

The national reports indicate a shortage of the skills and/or resources within, or available to, employers' associations which would enable them to undertake the influential role they would have wished to assume in the privatization process. Given the complexity and scale of many of the privatization initiatives, often undertaken at short notice and in telescoped timescales, this shortage of both skill and resource is not surprising.

Importantly there seems to have been little attempt to build either a centre of excellence or a data bank of best practice which is readily available to national employers' organizations. At the national level, employers' organizations are facing similar issues and are engaged in a resource-wasteful process of reinventing the wheel or not engaging at all in the more difficult problems.

Inevitably, much of the responsibility for the success or failure of privatization will rest with industry's new owners and managers. It is therefore a key responsibility of the bodies which represent owners and managers — the employers' organizations — to do their best to help assure a positive operating environment and to provide the fullest ongoing support in what are extremely challenging and demanding times.

The body of this paper describes how employers' organizations have taken the opportunity to influence the process of privatization for the better — both with and without government invitation and encouragement. It also outlines in broad detail some of the positive steps taken by the 12 employers' associations covered in this report.

Using this information as a base, the following model of employer organization activity has been developed in the form of a "menu for action":

- Promotion of privatization.
- Preparation of management for privatization.
- Researching and advising on "world best practice".
- Establishing clarity of the privatization strategy and objectives.
- Developing the most appropriate process of ownership transfer.
- Communication of the process and timescales to all stakeholders.
- Training and education of managers and entrepreneurs.
- Provision of change management support.
- Securing appropriate investment/investors for privatized businesses.
- Review of early privatizations and developing processes which enable learning from successes and failures.

-
- Ongoing monitoring of the development of privatized businesses.
 - Ongoing support to privatized business and management.

Despite some distinct areas of “best practice”, the reported activities undertaken by employers’ organizations and their influence in improving the process of business privatization to date have been generally patchy and less significant than they might have been. More positively, it is not too late for employers to exercise their influence on both new privatizations and, equally importantly, on the longer term development of newly privatized business. The sustained success of privatized enterprises will depend crucially on the provision of training, education and ongoing support to owners and managers.

In order to encourage and facilitate action on the part of national employers’ organizations, it would be helpful to establish appropriate support systems for the national employers. This could include a centre of excellence and/or a data bank of best practice which is readily available to national employers’ organizations which includes expert advice and guidance and appropriate training materials and resources.

1. Introduction

This paper reviews the role played by employers' organizations in the recent processes of privatization undertaken in 13 countries: Argentina, Cameroon, China, Czech Republic, Ghana, Latvia, Mexico, Pakistan, Russian Federation, Senegal, Sri Lanka, Uganda and Viet Nam. It is based upon reports submitted by the employers' organization in each country to the Bureau for Employers' Activities of the International Labour Office.

The paper is not intended to précis the individual country reports but to use them as a basis to describe the role actually played by the employers' organizations, to assess their effectiveness and to draw general conclusions on how the organizations might better have used their role and influence to improve the privatization process. By documenting a model of international best practice on the role of employers' organizations in the privatization process, the paper fulfils one of the most important concerns identified by the majority of the individual country reports — that of learning from the experiences of other countries in similar situations.

The privatization of previously state-controlled enterprises has been probably the most significant global economic phenomenon of the last 20 years. The privatization process has accelerated rapidly in the late 1980s and the 1990s with both the increasing pace of industrial globalization and the fall of communism which have led to widespread economic restructuring.

In almost every case reported in this paper, the privatization process has been at the very core of national economic regeneration and consequently has had extremely demanding objectives placed upon it. Similarly, in the majority of cases, the reality of the process of privatization has not been a seamless transition from inefficient state bureaucracy to the desired model of privately owned entrepreneurial efficiency.

The success or failure of employers' organizations in positively influencing the privatization process is best examined against the ideological objectives of privatization and the real life issues which have arisen in the countries included in this paper.

The paper consequently examines:

- the objectives of the privatization process;
- issues arising in the privatization of industry;
- the role played by the employers' organizations;
- constraints on the ability of employers' organizations to influence effectively;
- a model for the effective involvement of employers' organizations in the privatization process.

It is important to note that this paper is written exclusively from the perspective of the employers' organization in each country studied. Comments therefore on the objectives of the privatization processes, the problems experienced, the constraints on the effectiveness of employers' organization activities and any recommendations for improvement are either taken directly or interpreted from the views expressed in the reports submitted by the individual employers' organizations.

2. The objectives of the privatization process

There are considerable similarities in the reported reasons for and objectives of privatization in each country. Every report noted both the inefficiency and unsuitability of the prevailing centralized/planned models to today's public expectations and market circumstances and the constraints placed on the nation's active participation in increasingly globalized world trade.

The stated objectives of privatization variously include the strive for operational efficiency, the spread of ownership of business beyond the State, the release of the State from the financial and administrative burdens of running industry, raising funds for economic regeneration or to pay off debt, the need for productivity improvement, the transfer into the country of improved technology, reducing public demand for and/or reliance on imports, improved customer service, quality improvement, reduction in costs of production, removal of institutional rigidities, professionalization of management, the creation of internal competition, the creation and fostering of an entrepreneurial spirit, the better alignment of supply and demand fostered by the market system, providing an effective means of evaluating the performance of industry and the attraction into the economy of private national and international capital.

The various objectives can be summarized under the following broad headings:

- Competitiveness — cost reduction, productivity improvement, quality improvement, introduction of internal competition, establishing an effective means of evaluating business performance.
- Financial — the release of the State from the problems of running resource-hungry and often loss-making business, raising funds for economic regeneration and/or to pay off debt, attraction of national and international capital into the economy, reduced reliance on imports.
- Managerial — the introduction of more professional management skills and techniques, creation of an entrepreneurial and risk taking business culture, and better motivation and incentives provision for management and staff.
- Political — introduction of the market system as a means of aligning supply of resources with the public demand for them, the spread of stakeholding as a means of creating a results-based orientation, integration of the economy into world markets.
- Technological — the encouragement of individuals and businesses to resort to the most efficient processes available, the importation of international high technology solutions and best practice.

Given these objectives, it is not surprising to note that employers' organizations saw the process of privatization as the most important thing to have happened in their country's recent economic history and stressed the importance of "getting it right".

The actual process of privatization, not surprisingly, varies State by State. The process is influenced by a number of factors but two important issues exert a dominant influence — the starting-point of the structure of the economy and the timescales set for concluding the privatization process.

In the Russian Federation, for example, virtually the whole of the economy was under State control and it was seen as a political and economic imperative to conclude the process of privatization as quickly as possible. By contrast, the timescales for the process of privatization in China, from a similar structural starting-point, have been much more measured. The economic reform of the country since the 1970s has been based on incremental change with Deng Xiaoping describing the process of economic restructuring as "feeling the way forward".

In Viet Nam at the start of their privatization initiative in 1989, 85 per cent of enterprises were already in the private sector. The largest and most important enterprises however,

accounting for more than 80 per cent of the country's capital, were in the hands of 6,400 state-run organizations. In the words of the employers' organization (the VCCI) the process was of "limited scale resulting in modest outcomes". In Mexico the privatization process started in 1982 brought the number of state-controlled enterprises from just 1,155 to 204 over ten years. In Ghana 182 state-owned enterprises have been privatized over a ten-year period.

The privatization process has taken either or both of two basic forms:

- turning over small businesses, where these were not already in private hands, to entrepreneurial structures;
- restructuring larger businesses into commercially based operations.

The process of ownership change has been accomplished by a wide variety of means, determined according to national circumstances and priorities, and including some or all of the following: sales of enterprises or parts of enterprises, the cessation of state activity to make way for private business, mergers and take-overs, contracts to manage, contracting out elements of state enterprises, part-privatization of companies with the retention of significant or majority state ownership, stock market flotation, management "buy-out", establishment of enterprise groups and the attraction of private funds into state operations.

3. Issues arising in the privatization of industry

Section 3 above describes the extremely challenging range of outcomes governments hoped to achieve from the privatization of industry. The process of shifting the control of industry from government to private ownership has been seen as a universal panacea for almost all economic ills.

In most countries the focus of government activity has been primarily upon the technical issues surrounding the transfer of ownership. Indeed, for pressing political and economic reasons, governments often seek to effect the process of transfer of ownership from public to private hands as quickly as possible. Significantly less attention has been devoted to the overall process of privatization as a major cultural shift and a massive change initiative involving human factors which have to be planned for, implemented and then followed up if the objectives of the process are to be achieved and sustained.

The employers' organization of Uganda (the FUE) crystallized an important theme which runs through a number of the national reports in its statement: "It has to be noted that privatization does not start and end with change in ownership".

Successful privatization of industry involves the politicians and decision-makers achieving the active support and commitment of all of the major stakeholders — the country's population (the voters), employees and their representative organizations, management, clients and customers, potential investors and government officials. Every one of these stakeholder groups has the potential power and influence to reduce the effectiveness or even nullify the best-planned technical transfer of ownership.

Viewing the process of privatization from the point of view of the major stakeholders there are a number of extremely important concerns which have to be addressed.

The population — has to be convinced that privatization is not simply "selling the family silver" to a small group of élite, exploitative and often foreign private owners. As most of the previously Communist countries have spent decades persuading their populations of the evils of private ownership, this is no mean feat.

Employees and the trade unions — have to be persuaded that the efficiency improvements arising from privatization and the consequent changes in behaviours and practices and job losses are actually in their medium and longer term best interest, i.e. that the "privatization cure" is not worse than the disease itself.

Managements — have to embrace positively the introduction of massive and disruptive change and accept the taking of responsibility, accountability and personal risk.

Clients and customers — need to believe that change is in their interests and will result in more choice, better quality and reduced prices.

Investors (national and international) — have to be persuaded to put their cash and resources into the project.

Government officials — have to accept that the appropriate role of government is to manage the economy at a macro economic "enabling framework" level and not to control every one of the constituent parts of it. This has to be accomplished even though it will lead inevitably to less civil service posts.

All of the stakeholders have to be persuaded both that privatization is the right way forward for the national economy and, equally importantly, that the technical processes of privatization will be conducted in an efficient, fair and transparent manner.

Perhaps most crucially, those individual entrepreneurs and managers who are to take control of industry need the skills and support to be able to carry through the major changes that will be necessary to make a success of privatization. Much is said in the national reports about the need

to introduce western standards of business management. In truth there are probably relatively few western managers and management teams who would be capable of accomplishing the kind of change programmes which need to be achieved in many of the newly privatized companies within the political timescales established for completion.

It is against these broad challenges, as opposed only to the technical ownership change process, that the role of the employers' organizations in the privatization process has most potential value to add and has to be examined.

4. The role played by the employers' organizations

Although the activities undertaken by the employers' associations included in this paper vary significantly in terms of their depth and influence, there is considerable commonality of view in the overall roles which they believe need to be assumed. These roles fit closely with the view of privatization taken in section 4 above, as an holistic culture change process, as opposed to a more limited structural programme of ownership change. In general terms however, given the importance of the privatization process to employers' organizations, there is little question that the activities undertaken and their influence could and should have been more significant.

All of the employers' associations identified the importance of the following roles:

- the promotion of the development of enterprise reform;
- influencing government proposals in the interests of employers;
- preparing managers for privatization and upgrading their skills and competencies;
- safeguarding the legal interests of directors.

In addition the following important roles were identified in particular countries:

- linking companies with national and international investors/partners (VCCI — Viet Nam);
- identifying and sharing national and international best practice (CEDA — China, CNP — Senegal);
- consultancy and advice to companies — particularly in industrial relations and change management (CEDA — China, FUE — Uganda).

It is evident from the reports that the extent of employers' association activity in the privatization process in terms of the quantity and quality of the work undertaken and its influence varies widely from country to country.

There are a number of reasons for this difference in activity and influence. The most common issues raised however are related to the resources and skills available to the particular association and its prevailing level of influence in the country. These issues are considered in more detail in section 6.

Looking specifically at the four areas identified by all the employers' organizations as important parts of their role in promoting and securing a smooth transition to a market economy, the following are examples of specific activities undertaken.

(i) The promotion of the development of enterprise reform

All of the employers' organizations were understandably in favour of the principles of privatization and saw themselves as key players in convincing governments, employees, business managers and the national population in general of the benefits of privatization.

Many of the organizations undertook and published significant pieces of research demonstrating the virtues of privately owned enterprise. In no case was more work reported than by CEDA in China and their activities are considered separately below in the form of a "cameo" case-study.

The VCCI in Viet Nam sees itself as the "largest representative organization functioning the promotion of activities towards the development of non-state enterprises". The VCCI has undertaken research projects in the area of privatization and organized subsequent public forums including one attended by 600 participants on the subject of equitization in Hanoi and Ho Chi Minh City in May 1996.

The CNP in Senegal reports the importance of communicating effectively with, and actively engaging, the national and international stakeholders in the privatization process. They describe the importance of distinct communication programmes aimed on the one hand at the general public and on the other at those organizations and agencies involved directly in privatization.

The EFC in Sri Lanka has undertaken a special study into the performance of privatized enterprises, demonstrating that these organizations had, prior to privatization, been managed in a "haphazard manner and on ad hoc political decisions directed towards keeping employees pleased as far as possible".

The RUIE in the Russia Federation established an "Expert Institute" in 1991 which has been responsible for analysing the process of privatization and the results achieved in order to form public opinion on privatization and to influence the privatization process itself to improve its efficiency and effectiveness. Publications of the Expert Institute include:

- "Russian enterprises: Life in crisis" (1992).
- "Enterprises and the Government: A hard way to compromise" (1992), "Reforms à la Gaidar: 500 days after" (1993).
- "Russia's textile industry: Is there any chance for surviving" (1994), "Russian industry: A portrait in the interior of crisis" (1995).
- "Russia toward the year 2000" (1995).

(ii) Influencing government proposals

The largest part of each of the country reports dealt with both a description of the technical processes of privatization in each of the countries and the role played by the employers' organization in influencing the development of that process.

There are considerable differences in the role played and influence exerted by the national employers' organizations. In general terms however, most employers' organizations felt that the decisions relating to the technical processes of privatization were political ones, where the views of the employers' organizations were either not sought or not really wanted. The only real exceptions to this view were reported by the FCI in Mexico and the UIA in Argentina, which are both covered in more detail below.

In the Russian Federation, the RUIE was critical of the government agency responsible for privatization (the *Goskomimuschetvo*) for rejecting almost all of its proposals on the organization of privatization. Indeed the *Goskomimuschetvo* is criticized for its rejection of virtually all proposals made by scientific and public organizations unless they were in accord with their own pre-established views.

In Ghana, the GEA, together with all other employers' organizations, were excluded from involvement with the Divestiture Implementation Committee. By 1993, as a result of a public outcry against the apparent secrecy surrounding the work of the DIC, the Government had to adopt a more transparent and involved approach to privatization. Despite the fact that the trade unions were awarded a seat on the newly constituted, eight-person DIC, no representatives of employers were involved.

In Latvia, the LDDK represents Latvian employers in the Tripartite Council of Latvia, the Committee of the Council of Ministries, the Tripartite Labour Protection Committee and the Tripartite Social Protection Committee. The weekly meeting of the Committee of the Council of Ministries regularly discusses privatization issues including decisions on enterprises to be privatized and the legal processes of privatization. Despite this continuing, and apparently close involvement with the Government, the LDDK reports little satisfactory progress in shaping the privatization programme from the employers' point of view.

In the Czech Republic, the SP reported active participation in the first wave of privatization through their role as members of the Ministry of Trade and Industry Committee advising on the

selection of privatization projects and on areas including reform of taxation and social security regulations. Since 1992 however the new ruling coalition is reported to have little or no will to involve or strengthen the role of the social partners on economic matters.

In Pakistan, the EFP reports that the Government did not formally consult the federation on the development of its privatization programme — despite the fact that the privatization of industry had been a long-standing demand of the private sector. In the event, the Government was criticized in the early stages of privatization for the lack of clear objectives and for the creation of suspicion and doubt because of the lack of transparency in the privatization process.

The FUE in Uganda is generally well connected with the Government through both formal and informal links, yet remains critical of its lack of influence on privatization law. The privatization statute adopted followed the model preferred by the Ministry of Planning and Economic Development and gave little scope for adequate consultation of either of the social partners on the broader social and employment-related issues associated with privatization. The FUE believes that its influence would have been more beneficial had it been more closely involved in the drafting of the law rather than working on the implementation of predetermined decisions.

More positively, the FCI in Mexico reported that their involvement in the development of privatization regulations was entirely adequate. Their most significant role related to their close involvement in the development of criteria for the selection of enterprises for privatization and their valuation. This is reported in more detail in the Mexico “cameo” case-study below.

In Argentina the process of privatization was uniquely based upon a formal agreement between the Government and the national employers’ organization (the UIA). The “Agreement for the Reconversion of Argentine Industrial Production” was signed on 2 September 1991. Commenting on the significance of the agreement, the President of the UIA said: “I want to emphasize that this agreement constitutes the first document historically subscribed between a government and a business sector.”

Through this agreement the UIA collaborated extensively and actively in the formulation and implementation of the privatization process.

(iii) Preparing managers for privatization and upgrading their skills and competence

Second in importance to the employers’ organizations, behind the will to influence the shape of the privatization process adopted by the government, was the training of managers to cope with industry in its new forms. Training was not only important in terms of activity carried out to date but also featured strongly in the employers’ organization forward plans.

The significant investment in training undertaken by CEDA in China is reported in the “cameo” below, but recognition of management training as a crucial issue and the provision of significant support for training and education is evident in many countries. It has been pointed out in section 4 above that there are probably relatively few western managers and management teams who would be capable of accomplishing the kind of change programmes which need to be achieved in many of the newly privatized companies within the political timescales established for completion. The employers’ organization role in training education is therefore crucial.

In Viet Nam, between 1993 and 1996, 300 training programmes involving approximately 2,000 managers took place each year. The course content centred on business management and administration, marketing, finance, customer service and human resource management.

The FUE in Uganda has undertaken training programmes at all levels of management from executive board to supervisor level and, aiming directly at the small and medium-sized enterprise sector has stepped up the volume of training on the “Improve Your Business” and “Start Your Business” modules.

(iv) Safeguarding the legal interests of directors

The establishment of new rights and protections for the owners of privatized enterprises and the assurance of their ability to exercise them was seen as an important part of the advocacy role of the employers' organization in a number of countries. It is felt by some employers' organizations that a new and more employer-friendly working environment has to be developed and demonstrated in order for entrepreneurs to seize the new opportunities open to them.

However, other than stating that the safeguarding of the interests of entrepreneurs was an important part of the role of the employers' organization, little of a concrete nature was reported in terms of particular problems faced or actions taken.

A number of the specific activities undertaken and reported by particular employers' associations are worthy of individual and particular note. The following brief case-studies describe some of the most interesting and more unusual features of employers' organization activities in four countries.

Case-study 1

CEDA — China: Preparing for privatization

In the context of preparing China and, in particular, Chinese managers for privatization CEDA has undertaken a significant volume of activity.

Chinese enterprise study missions have been carried out with the objective of familiarizing the participants with the market system and, in order to reach larger audiences of managers, foreign experts in the field of enterprise management have been invited to China. Eight Sino-foreign training centres have been established which utilize business study materials from foreign management institutes translated into Chinese. To date around 100 sets of training materials have been compiled and translated. More than 50 international workshops have been held and 150,000 managers involved in local and/or overseas training.

Aiming at an even broader audience, some 60 news publications have been produced with a circulation volume of 140 million copies including the magazine "Enterprise Management", the newspaper "China Enterprise Daily" and the "Encyclopaedia of Enterprise Management of China". CEDA is also involved in publicizing the early successes of the market economy in China. To date 98 records have been published on product profitability, patents, equipment and technology and environmental protection.

On the important question of best practice sharing, CEDA has carried out an "assessment on enterprise competitiveness" and has developed an index system for measuring the competitiveness of China's enterprise. A study on the common problems arising from the transformation of enterprises was carried out on the first 244 organizations to undergo the transition from public ownership.

Additionally CEDA has been involved in the setting up of consulting companies which have worked with 700 organizations on subjects ranging from financial planning to ISO9000 quality certification.

Case-study 2

FUE — Uganda: Securing sound industrial relations

The Ugandan "public enterprise reform and divestiture statute" requires that privatizing enterprise management refrains from "taking any action or actions which may cause industrial unrest". The FUE report highlights the potential for the combination of management enthusiasm for privatization and labour uneasiness and uncertainty to generate industrial relations unrest.

Between 1993 and 1997 a number of training programmes and clinics have been run for supervisors and shop stewards promoting industrial relations harmony as a source of efficiency and productivity improvement.

During the same period the Executive Director of the FUE and other senior members of staff have been involved in high profile mediation activity in disputes in the banking, insurance, tea and sugar industries.

Case-study 3

VCCI — Viet Nam: Access to financial sources for small businesses

Although 31,000 private sector businesses account for 85 per cent of Viet Nam's enterprise total they are responsible for less than one-fifth of the country's capital and rarely employ more than a handful of employees. These companies have little opportunity to receive credit through traditional financial systems and recent statistics show that some 90 per cent of their capital has been raised outside the established capital market. This important source of potential economic growth is consequently constrained in both employment creation and technological advancement.

The VCCI has established a role working with companies on investment feasibility studies and the provision of warranties on loan application projects. Since 1994 the VCCI has worked on a large number of investment projects with ESCAP (UNDP), UNIDO, PASIFICA (United States) and ZDH (Germany).

Case-study 4

Federation of Chambers of Industry — Mexico: The technical justification for privatization

Between 1982 and 1993 the number of public enterprises operating in Mexico reduced from 1,155 to 258. The privatization process included the strategically important industry sectors of iron extraction, quarrying, wheat, coffee, drinks, tobacco, textiles and the motor industry.

The selection of areas for privatization was based upon a technical justification using the following criteria:

- the enterprise no longer fulfils the objectives for which it was created or its existence no longer benefits the national or public interest;
- enterprise activity could be merged with another entity in order to improve efficiency and productivity;
- enterprise activity does not focus on priority areas and there are no economic or public interest reasons why the enterprise should be under state control.

One of the most important concerns of the employers was that privatization should be accomplished using clear criteria for the selection and privatization of enterprises. They stressed the need for privatization to be a totally "transparent" process resulting in the balanced and appropriate transfer of ownership.

The Federation of Chambers of Industry was closely involved in developing the criteria for evaluation of state enterprises, the subsequent technical evaluation of businesses, the identification of any potential strengths, weaknesses, opportunities and threats of privatization and the determination of the value of the enterprise. In their view, the federation has used objective data and analysis to strengthen significantly the objectivity and quality of privatization decisions.

5. Constraints on the ability of employers' organizations to influence the privatization process

Section 5 indicates that the extent of employers' association activity in the privatization process in terms of the quantity and quality of the work undertaken and its influence varies widely from country to country.

This difference is related in the main to two factors: the resources and skills available to the particular association and its level of influence in the country. These factors are not, of course, always unconnected.

(i) The level of influence of the employers' organization

The level of influence of the employers' organization in each country is, in part, linked to the government's willingness to consult representatives of employers and, subsequently, to take account of their views. In reality, the extent to which governments have requested and taken into account employee views on privatization has varied widely.

At one extreme, in Argentina, the privatization process itself was based upon an agreement between the Government and the national employer body, the UIA. At the other extreme, in the Russian Federation, the privatization authority (the *Goskomimuschestvo*) was uninterested in the views of Russian employers unless they happened to be consistent with their own.

Table 1 produced below illustrates, on a scale from low involvement to high involvement, the governments' reported willingness to involve the employers' organization in each country studied.

It can be surmized that a government would be unprepared to take the views of employers' organizations into account for three reasons: firstly, because they wished to keep the politics of privatization exclusively within the government itself, secondly because they did not believe that the employers had a valuable input to make or thirdly because the country had no history of consultation of employer bodies.

Quite clearly there has been a low level of government encouragement of employer involvement in those countries where the processes for the consultation or involvement of either or both of the social partners are not well established.

Table 1. Governments' reported willingness to involve the employers' organization in the privatization process

Influence level	Country
Low	Ghana
	Russian Federation
	Latvia
	Pakistan
	Senegal
Medium	Czech Republic (Medium prior to change of government in 1992)
	Cameroon
	Uganda
	Viet Nam
High	Sri Lanka (higher later due to industrial relations difficulties)
	Argentina
	Mexico
	China

More interestingly, from the point of view of this report, it seems from the accounts of the employers' organizations that employers have been least involved by the government in those countries where the process of privatization has been seen as a political one related primarily to a transfer in the ownership of business from public to private hands and where, in the government's view, privatization needed to be implemented as quickly as possible. Both the Russian Federation and Latvia are good examples of this.

Conversely, where it has been seen that privatization embraces a longer term and wide-ranging cultural change programme, the role of the employers' organization has tended to be more important. This can be seen from the example of Sri Lanka where the President of the EFC was appointed to the Public Enterprise Reform Commission only after significant employee relations difficulties had arisen as a result of the privatization programme. Similarly in Pakistan employer involvement increased only after the regulations had been drafted and the complexities of implementation arose.

With notable exceptions, the employers' organizations have been generally critical of, and disappointed by, government attitudes toward the involvement of employers in drafting privatization regulations. More than one report suggested that the process of privatization might have been more effective, more smoothly carried out or assumed a higher level of transparency had they been involved in the process from the outset.

Of course, the fact that governments may have failed to consult employers' organizations, or been unwilling to listen to them, is no reason in itself for the employers to have undertaken little activity and/or to have exercised little influence on the overall privatization programme. An inclusive attitude on the part of government certainly makes life easier for the employers' group but a negative or ambivalent attitude on the part of the authorities does not make employer activity either less relevant or less important.

Interestingly a plotting of actual employer organization activity and influence on the privatization process would not result in a similar ranking to that found in table 1 above relating to governmental inclusiveness. It serves no purpose to reassemble the ranking based upon employers' organization reports of activity and influence. However, it should be noted that the unwillingness of the Russian authorities to listen to the employers' voice has done little to dissuade the RUIE Expert Institute from making its views felt. The failure of the government of Pakistan to consult employers on the legislative issues has not dissuaded the EFP from undertaking significant activity in support of privatization. The training efforts undertaken in both

Uganda and Viet Nam are unrelated to their respective governments' lack of willingness to involve them closely in consultation on legal matters associated with privatization.

This point is an important one for employers' organizations in countries undertaking privatization. The willingness of government to adopt an involvemental approach is extremely helpful. A less involvemental government attitude does not however prevent the employers' organization either from making its views known or from undertaking promotional or supportive work associated with the privatization process.

Put simply, the privatization of industry is far too important to the employers' organizations for them to rely on invitations by government to involve themselves in the process.

(ii) Resources and skills available to employers' associations

Most of the national reports indicate a shortage of the skills and/or resources available to, or within, the employers' association which would enable them to undertake the influential role they would have wished to assume in the privatization process. Given the complexity and scale of many of the privatization initiatives, often undertaken at short notice and in telescoped timescales, this shortage of both skill and resource is not surprising.

The Czech Republic employers' organization identified the specific need to "improve its expertise and the quality of staff available" in order to serve its members effectively into the future. The GEA in Ghana identifies debilitating deficiencies in staff capability, finance and a lack of basic office equipment. Similar sentiments on the need for improved internal skills and resources, on the potential benefits of learning from international best practice and the need for access to expert assistance are repeated in the reports of China, Latvia, Pakistan, Senegal, Sri Lanka, Uganda and Viet Nam.

Against this clearly stated need, there seems to have been little attempt to build either a centre of excellence or a data bank of best practice which is readily available to national employers' organizations. At the national level, employers' organizations are facing similar issues and are engaged in a resource-wasteful process of reinventing the wheel or not engaging at all in the more difficult problems.

6. A “menu for action” — A model for the effective involvement of employers’ organizations in the privatization process

Few, if any, subjects belong at the core of the activities of employers’ organizations in the way that the recent mass privatization of industry and services does. Privatization is at the heart of plans for the economic regeneration of a number of countries which are trying to establish a place in the global economy. The process of privatization carries with it extremely demanding economic objectives.

The sections above describe significant differences in the quantity and quality of activities undertaken by employers’ organizations to influence the process of privatization. In many countries, the employers’ organizations expressed concern at the lack of government willingness to seek and take account of employer advice and suggestions. The employers’ organizations were also consistently concerned about the shortage of the skills and/or resources within or available to their associations to enable them to undertake the influential role they would have wished to assume in the privatization process.

Despite some distinct areas of “best practice”, however, the reported activities undertaken by employers’ organizations and their influence in improving the process of business privatization to date have been generally patchy and less significant than they might have been

Irrespective of the attitude of government toward employer involvement in privatization, the subject is too important for employers’ organizations not to play a central role in preparing for, implementing and making a success of the privatization process. The involvement of employers’ organizations in the total process of privatization is particularly important when it is noted that government preoccupation with the privatization process in many countries is limited to getting the technical transfer of ownership process through as quickly as possible.

The sustained success of privatization depends crucially on preparing for and implementing a massive and long-term culture change programme rather than simply getting the technical ownership change plans in place. The privatization process has to carry with it the support of all of the major stakeholders in both the existing and newly privatized businesses: the country’s population, employees and their representative organizations, management, clients and customers, potential investors and government officials. Every one of these stakeholder groups has the potential power and influence to reduce the effectiveness or even nullify the best-planned technical transfer of ownership.

Inevitably, much of the responsibility for the success or failure of privatization will rest with industry’s new owners and managers. It is therefore a key responsibility of the bodies which represent owners and managers — the employers’ organizations — to do their best to help assure a positive operating environment and to provide the fullest ongoing support in what will inevitably be challenging times.

Against a general background of limited activity and influence, the sections above provide illustrations of how employers’ organizations in the 12 employers’ associations covered in this report have taken the opportunity to influence the process of privatization for the better — both with and without government invitation and encouragement. Using this information as a base, the following model of employer organization activity has been developed in the form of a “menu for action”:

Privatization menu for action

1. Promotion of privatization

Through national and international research, producing and publishing materials which promote the principles and practice of privatization aimed at the country's key stakeholders; the government, employees and their representative organizations, business managers, customers and clients, potential national and international investors and the population in general.

2. Preparation of management for privatization

Production and delivery of training and other appropriate materials aimed specifically at assuring the understanding of, and the commitment to, the role of business managers in the successful privatization of industry. The aim of this work is to establish business management as activists in favour of privatization rather than potential obstacles to it.

3. Advising on "world best practice"

Establishing the employers' organization as a source of valuable learning from the successes and difficulties experienced by other countries.

4. Establishing clarity of the privatization strategy and objectives

Influencing the government in the development and publication of a clear strategy and objectives for the privatization process in order that the key stakeholders understand what is hoped to be achieved from privatization and the manner in which it will be implemented.

5. Developing the process of ownership transfer

Influencing government on the appropriate means of transfer of business into private ownership; including the criteria for the selection of enterprises for privatization, the means of establishing the value of companies, the organizational structures which will result and the selection of appropriate new owners.

6. Communication of the process and timescales to all stakeholders

Ensuring that all stakeholders are aware, throughout the privatization process, of the key milestones to be achieved and the progress made. This process should be sufficient for the most important stakeholders, managers, employees and investors to work in an environment of transparency and certainty.

7. Training and education of managers and entrepreneurs

Provision of specific training and support for business managers and entrepreneurs in "hard" management skills.

8. Provision of change management support

The provision of specific training and consulting support on the process of introducing and managing major change programmes successfully.

9. Securing appropriate investment/investors

The promotion of the privatization process and the potential investment opportunities to appropriate national and international investors. This could include provision of advice to the potential owners of small and medium-sized businesses on the raising of funds for the purchase and running of business.

10. Review of early privatizations and developing processes which enable learning from successes and failures

Research on both the process of privatization and the early experiences of businesses in transition in order to enable subsequent enterprises to learn from both the successes and difficulties experienced.

11. Ongoing support to business and management

Recognizing that the successful privatization of business is a long-term and complex change management programme, providing ongoing support to entrepreneurs and managers in the ongoing development of their businesses.

In order to encourage and facilitate increased involvement and influence on the part of national employers' organizations, it would be helpful to establish appropriate support systems

for the national federations. This could include a centre of excellence and/or a data bank of best practice which is readily available to national employers' organizations. A centre of excellence would provide both "on-line" and "on the ground" expert advice and guidance to national employers' organizations. A data bank of best practice would document and make available to employers the lesson learned from successful initiatives and provide model communication and training materials.