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**THE CONTRIBUTION OF
PRIVATISATION TO A NEW
ECONOMIC AND BUSINESS DYNAMIC**

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Universidad de Alcalá

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I. INTRODUCTION

The second half of the twentieth century saw growing agreement in Europe, and in other parts of the world, that economic organisation governed by market and price mechanisms offered superiority as an instrument of co-ordination between those participating in economic and social life. This came after a first half characterised by innumerable different approaches towards the organisation of economic and social life. Unfortunately for society, some of these approaches were actually imposed upon the economic-social reality; others, however, remained merely intellectual experiments. For many decades economic organisation has been notable for the strong predominance of state interventionism, exercised to a greater or lesser degree. Many times the state has intervened quite openly; at other times, however, such intervention has been indirect and has had far-reaching consequences. It is only within recent decades that there has been a growing acceptance of the superiority of an order based upon a market economy.

Without doubt the development of the European Union has contributed in a significant way towards this widespread acceptance of

a market economy. However, at the present time between 40% and 50% of economic activity (GNP) in Europe still remains regulated, as can be seen by individual countries in Figure 1. Overall, one can also note the wide differences existing between different countries and a notable trend towards a reduction of the role of the State. Aside from Japan, together with France, which have experienced a relatively high increase in State participation, there still remain a group of countries exhibiting a certain resistance to a reduction of State activity (Germany, Sweden, Austria, etc.).

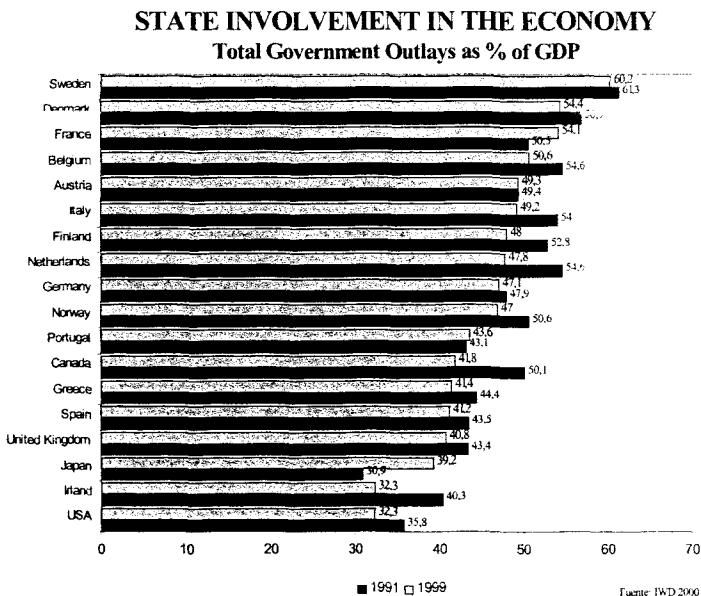


Figure 1: State involvement in the economy

An economic order which organises the economy around the market for the most effective distribution of limited resources contributes in the most rational and effective way possible towards a satisfactory fulfilment of the needs of the individual. It represents, without doubt, the organisational model closest to actual human reality and, for this reason, its ethical dimension¹. It is, in addition, the best way to implement the capacity of individuals to behave in a rational manner.

Consequently, from both economic and ethical standpoints, the type of economic-social order closest to the reality of human nature is that of the market economy.² However, there exist barriers, interventions, organisational interference and other types of behaviour which all frequently impede and disrupt the functioning of the market economy.

The processes of deregulation and privatisation must, therefore, pursue as their primary aim the systematic extension of the functioning of the market economy in order to strengthen an economic and social order based upon effective conduct of the markets and the greatest symmetry possible in the relationships between all who participate. The keystone for the functioning of a market economy is the institutionalised existence of the markets, as wide-reaching spaces

¹ Utz, F.: *Ética Económica*, Madrid 1998, pp. 89 ss.

² *Ética Económica*, ob. cit

regulating economic and social rationalism, and so impacting on the rationality of all human behaviour in both economic and social fields.

One of the principal participants in the configuration of the market is the company. Without companies there is no market and without a market there are no efficient companies. Neither, therefore, would there be rational behaviour in the use of resources; nor would effective coverage of human needs be generated.

Economic and social rationalism develop in a society through an economic and social order which establishes a space, together with its conditioning elements, so that markets may emerge; and these will be open and competitive and will encourage rationality in all economic and social aspects. All individuals will then need to operate with this rationalism if they wish to satisfy needs within the framework of the contribution of all towards the common good of society³.

At the present time, the processes of privatisation must fall within the framework of the development of an economic and social order which provides the response of economic efficiency and social resolution of existing needs. Such must be the great contribution in Europe of the processes of deregulation and privatisation: to bring about greater economic and social efficiency through a change in business cultures and in their associated institutions. It is here where

³ Utz, F.: *Ética Económica*, ob. cit. p. 25

the principal impact of the processes of privatisation is to be felt: in the change in business culture.

II. THE AIMS AND CONSEQUENCES OF PRIVATISATION

Quite independently of the importance of the processes of privatisation in terms of their social-political objectives, the acceptance of a market economy allows for the establishment of economic-social values which are ever more accepted by European societies - so consolidating the market economy as the common form of economic-social organisation. Within this framework there are four key aims in the processes of privatisation:

- To drive forward the response of economic and social efficiency through privatised business practices operating within the ambit of a global and increasingly competitive economy. This means guaranteeing the existence of economic and business activity through competitive capacity and guaranteeing jobs under an economic system based upon a market economy.
- To contribute to creating and vitalising markets, to opening them up and ensuring greater economic efficiency - and so to better and more satisfactorily meet the needs of the individual.

- To encourage companies to transform themselves, both in the structure of their governing bodies and in their management capacity; and so both modernising their structures and also changing the value systems of all their workforce - in particular the management systems and management and employee behaviour.
- To contribute towards changes in values and behaviour as a response to the globalization of the economy⁴, so facilitating the coming together of people, the markets and business activities. This involves breaking with a narrow and restricted economic rationalism, typical of limited and poorly competitive economic spaces, and so breaking out of closed economies into open, larger spaces - generators of new economies of scale and scope. And this also contributes to greater satisfaction of both material and intangible needs - with lower costs, thanks to greater economic rationalism consequent upon greater global productivity⁵.

The consequences of the processes of privatisation, anchored as they are in deregulation and in a new configuration of the competitive norms which guarantee the functioning of the markets, represent the highest achievements of greater economic rationalism in business organisations and changes in their value systems. It is by this means

⁴ García Echevarría, S., del Val Núñez, M.T.: "La empresa española ante la globalización de la economía" in *Grandes Cuestiones de la Economía*, Madrid 1997 N° 17, Fundación Argentaria. Lübke, H.: "Globalisierung. Zur Theorie des zivilisatorischen Evolution", in *Globalisierung und Wettbewerb*, Berne, Stuttgart, Viena, 1996, pp. 39-65. García Echevarría, S.: "La globalización de la economía y su impacto en el desarrollo corporativo. Hacia la búsqueda de un nuevo paradigma económico-empresarial" in *Working Paper número 262, Serie Azul*, IDOE, Alcalá de Henares 1999.

⁵ Utz, F.: *Ética Económica*, ob. cit. pp. 89 ss.

that the bases necessary for integration into wider economies are established, so creating new opportunities for the utilisation of available capabilities. It is only by the economic action of efficiently utilising and developing available capabilities that unit costs can be radically reduced, so contributing to the general well-being through job creation.

In a society such as ours, characterised by profound changes in the division of work, a state of permanent change is the key criterion for integration within wider economies. The chosen economic and social order “fixes” the economic and social rationale, but such a rationale is “realised” in companies and their associated institutions through a change in their business cultures - these, in turn, contributing towards a change in the values of society. The economic and social order is the springboard for such changes.

III. NEW DIRECTIONS IN COMPANIES RESULTING FROM THE GLOBALISATION OF THE MARKETS

The changes in the values and norms which regulate behaviour within a company - that is, its business culture⁶ - are not immediately produced by the mere fact of its privatisation. What the latter does

⁶ Pümpin, C., García Echevarría, S.: *Cultura Empresarial*, Madrid 1988. Pümpin, C., García Echevarría, S.: *Dinámica Empresarial – Una nueva cultura para el éxito de la empresa*. Madrid 1990.

produce is a widespread impact by changing expectations and instigating a greater willingness to change. This does not, however, trigger immediate change in the business structures nor in the behaviour of management and staff.

The real change in the corporate culture of a privatised enterprise is produced by an indirect impact: that is, through the vitalising of the market within which the company operates. For this reason there is an urgent need to open up the markets, to move away from narrow oligarchies, to avoid concentrations of power; for all of these impede the impulses towards change in the culture of an enterprise, in its structures and in its management and organisational systems. This is one of the basic tasks facing the proposed economic-social ordering of the European Union as set out in the Agenda 2000⁷.

The processes of transformation and change in enterprises require, in the first place, the definition of new norms for the governance of companies⁸ and a new orientation in the configuration and functioning of their management. But such a transformation of enterprises - and, what is today most important, the speed of such change - is only produced by the vitalising of their specific markets

⁷ García Echevarría, S.: "Las reformas de las políticas de la Unión Europea. Integración de lo económico y de lo social", in *Working Paper N° 259, Serie Azul*, IDOE, Alcalá de Henares 1999.

⁸ Cadbury, A.: "Tendencias en el Gobierno de las empresas", in *Globalización y Gobierno de las empresas*, Situación, N° 3, Madrid 1996, p. 56-69. García Echevarría, S.: "La globalización de la economía como motor de cambio económico-social y empresarial", in: *Situación*, N° 3, Madrid 1996 pp. 5-21

for goods and/or services through the globalisation of the economy. It is this which constitutes the engine of business change.

Without doubt it has been the vitalising of the capital markets in the first place which has significantly driven forward this process of change. The globalisation of the capital markets and the growing weight of the role of the investor, with the strong impact of the institutional investor, have generated a new vitality in the orientation of companies and their management.

The capital markets and the wide-ranging debate over an orientation towards shareholder versus stakeholder values have established the valuation of a company in terms of value creation expectations and estimation of the risks involved. Seen from the perspective of the capital markets, it is they which establish the references by which a company and its capacity for transformation are judged. The indicators for establishing the value creation benchmark that an enterprise must reach are today set by the capital markets. It is no longer the merely internal social-technical assessments made by a company itself which evaluate the rationality of the manner in which it is managed; it is rather its economic rationality relative to the valuation of the capital market, an organism external to the enterprise. Such a change in the valuation of a company reflects the transformation demanded from it.

Privatisation processes, therefore, provide companies with a new economic reference point which must orientate and inspire their management. If companies are not situated within the capital market, or at least close to it, then they will find themselves with no clear economic and social orientation; and, in consequence, without criteria by which to assess their economic rationality. Privatisation obliges a company to itself drive forward its own economic dynamic of transformation and change; and, reciprocally, obliges the State to open up and vitalise markets through deregulation and increased competitiveness. The consequences are “another” enterprise, “another” way of managing it, and this obliges the State to act as guarantor in maintaining markets that are both open and competitive. Such a new alignment results in a total break with decades of an economic and social ordering which has been highly restrictive.

These are the two most relevant impacts which guarantee the viability or not of an enterprise in terms of its real contribution towards serving the needs of society in the most effective way possible.

IV. THE ROLE OF PRIVATISATION IN CURRENT TRANSFORMATION PROCESSES WITHIN COMPANIES

The success or failure of a company, together with that of its interdependent associates, depends upon many factors. The current situation is marked by a strong dynamic of change in the international division of work; and this requires that the transformation of an enterprise be directed, for its survival, by business realities. To manage a company is to manage it in a state of permanent change in its division of work in order to adapt efficiently to all these changes. In the majority of cases such changes today are breaks and discontinuities rather than mere evolutionary adaptations. The basis for such a process of transformation is a “change management” with forceful impact throughout the management structure.

The situation is even more acute in those public and private enterprises which, because of their positions as monopolies, oligarchies or simply being privileged, have created strongly hierarchical-bureaucratical business cultures. Their resistance to change can reach heroic proportions.

To recapitulate, in the first place one can observe the reality of the processes of the opening up of the markets and their reflections in the changes in the division of labour - this being the engine of change,

seen from the viewpoint of the development of commercial interchanges.

Figure 2 shows the growth of imports over almost two decades. The significant differences between countries reflect different participation in the division of work. The European Union is developing its own vitality through strong participation in such division.

INTERNATIONAL DIVISION OF WORK: THE OPEN SOCIETY

Import of products and services as % of GDP

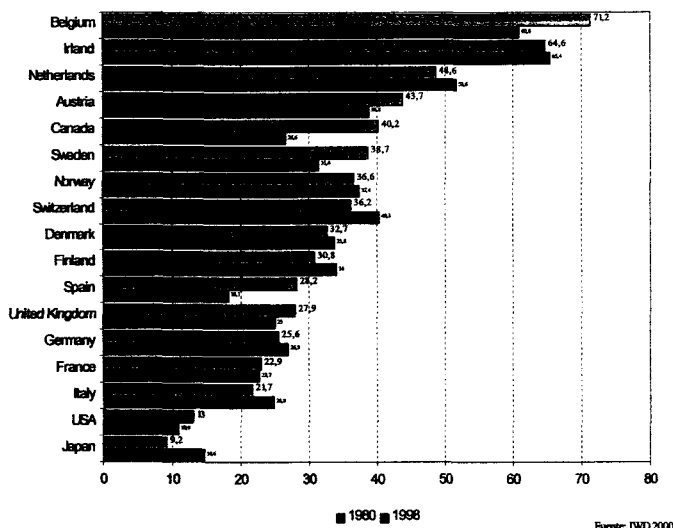


Figure 2: International division of work: the open society

The growth of networks - that is, the organisation of the economy in a network⁹ within this constantly changing division of work - is reflected by the growth of exports, with the trend towards globalization being particularly noticeable in the European Union. The wide variations in world participation by each country is a reflection of the impact of the division of work in each country and in its companies.

INTERNATIONAL DIVISION OF WORK: INCREASE IN NETWORK

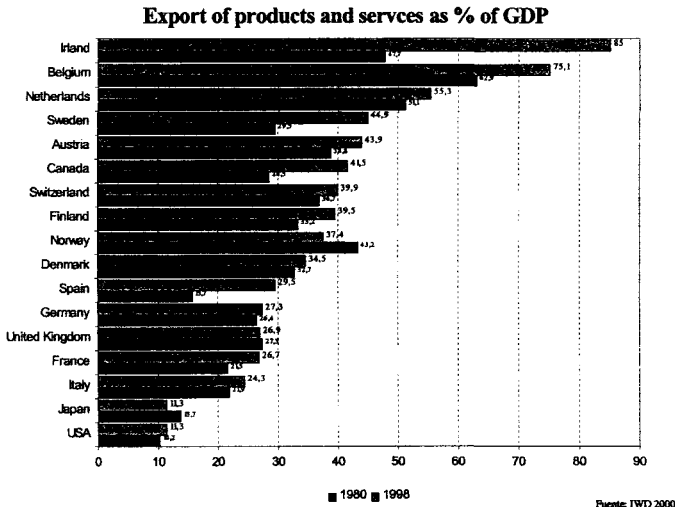


Figure 3: International division of work: increase in networks

The potential for vitalising European Union markets can be observed in the wide differences between current prices; a situation

⁹ García Echevarría, S.: “La globalización de la economía”, ob. cit. pp. 20 ss.

which forecasts an immediate incidence of growth in international work divisions. The differences are so significant that it is inevitable, with a single market and a single currency, that the transformations of European companies can only accelerate.

All references to changes in the economic, technological and socio-political environments require a break with many of the factors determining company activities and results. This, together with currency stability, will stimulate a growing orientation of company management towards greater economic efficiency.

City Products	Los Angeles	Madrid	Stockholm	Berlin	London	Rome	Paris	Differences in % UE
Coca Cola	0,99	1,05	2,09	1,58	2,09	1,35	1,55	99%
Lewis 501 32x32	45,46	67,89	59,69	68,11	72,9	74,2	78,34	31%
Spaghetti 500gr	1,25	0,78	0,66	0,63	0,5	0,56	1,05	110%
Mariah Carey CD	16,22	16,09	17,82	15,31	22,66	20,67	23,39	53%
Milk 1liter	0,93	0,91	0,75	0,58	0,7	1,11	1,17	102%
Toothpaste 75ml	2,26	1,55	2,14	2,11	2,68	2,09	1,81	73%
Windoos 98	117,99	123,94	179,79	211,2	242,98	264,47	265,33	114%
Mars	0,55	0,47	0,71	0,53	0,63	0,53	0,79	68%
Cereal 500 gr.	4,19	1,61	2,38	2,11	1,77	3,05	2,2	89%
Whiskey 1 liter	20,59	12,75	44,26	17,95	31,57	17,41	12,98	247%
Diapers x 28	13,52	5,03	5,42	6,86	7,27	10,55	12,69	152%
Chicken 2kg	3,92	6,14	7,63	7,91	8,73	5,83	6,06	50%
Total	227,87	238,21	329,34	394,88	394,48	401,82	487,36	71%

Figure 4: Examples of current price differentials within the European Union

Within a market-ordered economy, such vitalising of business environments constitutes the impulse towards the transformation of a company. The predominance of an orientation towards the achievement of greater economic efficiency, measured in the contribution to value creation, establishes the requirements for the transformation of the management capacity and the expectations of adaptation to change in the shortest possible time. This necessitates the establishment of economic criteria (such as capital cost, for example) as indicators demonstrating the utilisation by management of company assets and the capacity to manage people. It is precisely here where the greatest cultural change is to be found, a change which can only take place if the company itself accepts the obligation to contribute efficiently to fulfilling needs, both economic (efficient use of limited resources) and social (job creation, for example).

In recent years the process of privatisation has been taking place under optimum conditions for successful cultural changes within companies, given that - without deregulation and the opening up of the markets - the capacity for such changes and the success of privatisation would both have been clearly questionable. There is no way that privatisation unaccompanied by strongly vitalised markets, together with strong competition, could ever achieve the cultural change necessary to guarantee survival and success in an open globalised economy.

Public enterprises with strong bureaucratic cultures - and this applies to more than one private company as well - present serious difficulties when it comes to making a radical cultural change. The strong corporate cultures in more than one company occupying a dominant position - IBM and BP, for example¹⁰ - can result in management and staff being totally mistaken in the type of management they believe they should adopt. A strong corporate culture can be the greatest barrier to change - in bureaucratized organisations in particular.

The results of various studies show that those companies orientated towards their stakeholders - that is, the three corporate constituencies: customers, employees and shareholders - are those which achieve the cultural changes and the best results. Kotte and Heskett studied a group of these types of companies over an 11-year period and compared them with other companies whose managers cared mostly about 'themselves'. The 'stakeholder' companies increased their revenues four-fold, their workforces expanded eight-fold and their share prices increased twelve-fold (by 901%, against 74% for the 'themselves' companies). And most impressively, the net profits of companies in the first group rocketed by an average of 756% compared with an increase of just 1% for companies in the second group.

Such profound differences are the result of different ways of managing companies. A public enterprise with a strongly bureaucratic corporate culture, and which has flourished without competitive markets and with no attention to customer care, does not possess the capacity to transform itself. And if such a company is not faced with the challenge of the capital market, then there is no possibility of it effecting a radical cultural change.

Market orientation means that the capital market is always taken into account in decisions made by management and in the use of company assets. The labour market values the attractiveness of better *management and human resources*; competitive markets force a recognition of the customer. And these three reference points only exist when operating in open and competitive markets.

Furthermore, the privatisation of companies in order to generate open markets not only lends dynamism to the internal break-up of public companies and to the search for efficient management of these; it also creates and drives forward those markets specific to the area of activity of the company and impacts, through the characteristics of this activity, on the rest of the markets. It must be remembered that one relevant aspect of privatisation is the effect it has on companies operating in the areas of infrastructure and services; and this not only has repercussions on the costs of the latter, but also on the dynamic of change produced in the economy overall.

¹⁰ Kotte, J., Heskett, J.: *Corporate culture and performance*, Free Press, 1999

V. KEYS TO THE PROCESS OF CHANGE IN A PRIVATISED COMPANY

The basic factor in the transformation of a company through a process of privatisation is whether or not it achieves a radical change in its business culture - that is, in the values and behavioural norms affecting both management and all the human resources within the company. The requirements for transformation set out in the plan drawn up by the actual governing body of a public company in the process of privatisation involve both corporate aspects and those affecting the implementation of the change. The first requirement is for a strategic vision configuring and legitimising the economic criteria necessary for managing the company and for understanding its internal and external potential¹¹. Secondly, there must be a definition of a business philosophy which facilitates the orientation of the change to be made to the business culture. Thirdly, there must be acceptance of a business strategy which places the company effectively. All of these require the company to be situated within competitive markets.

No development of a strategic direction for the company is possible - neither can there be development of its institutional and managerial capability - if there is no clear orientation of company

¹¹ Pümpin, C., García Echevarría, S.: *Dinámica Empresarial*, ob.cit., pp. 21 ss.

activity in response to the three previously-mentioned corporate constituents: customers, to achieve levels of satisfaction which maintain their loyalty; employees, to assure their integration and capacity to adapt to the new competitive structures; shareholders, to respond to their wealth creation expectations.

The following “spheres of activity” must be considered to be keys to the success of the process of transformation in a privatised enterprise:

1. *Social-political sphere*: To seek the most effective response in satisfying the needs of society and in integrating the internal and external “customer” in the business design: that is, the creation of global value resulting from greater global productivity through the distribution of limited resources.

Ever more important in this process is the strengthening of the role of the State, both nationally and internationally, in its mission to create wider spaces and in establishing the rules of the game for the creation of a new dynamic between both the economic and social participants.

2. *Economic-social sphere*: To establish the requirements for an increase in competitiveness through open markets, and by so allowing for taking advantage of opportunities provided by

economies of both scale and scope in wider spaces. This means achieving economic efficiency through the utilisation of capabilities and competences.

But the real change is to be found in the social opportunities for the development of individuals, for it is on them that business success depends. This necessitates a revision of the traditional criteria of social policy, given that - with globalization - the exclusion of individuals and institutions is ever more rapid. Immediate integrating actions are needed, for the time available is limited.

3. *Corporate sphere*: For the achievement of new corporate development there must be an increase in competitiveness of the privatised company in the markets, both in terms of its orientation and in the definition of the system of values and in the strategy of the company. This requires the development of guiding principles for the governance of the company. The new business function must be conceived and developed in this corporate direction; in particular in that which affects the business capability to define the strategic vision. It is here where there is a key break in order to transform the enterprise; and the speed of this change depends upon the intensification of competitiveness and the opening up of the markets.

4. *Management capability sphere*: The dynamic of change primarily affects the capacity of management to adopt a strategic response in order to adapt to competitive situations. It involves constant adaptation of the activity and business portfolios, strategically entering and leaving new business areas and abandoning others. What is required is a clear strategic vision reflected in the business strategies.

But the fundamental change in management capability relates to basic requirements of learning how to manage people and not merely how to “administer” functions. Leadership requirements, rooted in the integration and motivation of staff, are at the core of this process of transformation.

What is involved is a basic break with an “administrative” management, typical of all public enterprises and also affecting all companies and institutions not operating within competitive markets.

It is for this reason that the economic criteria which measure value creation for the different groups of stakeholders bring with them new ways of evaluating management and staff and so affect in a radical manner this new capacity to structure, organise and implement management systems.

This involves new economic reference points which can measure the management contributions requiring by another business culture and the ability to adopt and operate with it.

5. *Organisational/structural sphere*: To be competitive in the markets requires a permanent change in organisational systems. Such a change profoundly affects the business organisation in transforming its hierarchical-functional or matrix structures into lean organisations through highly differentiated work teams and processes. The need for permanent adaptation of structures to strategic needs breaks with traditional systems of hierarchy and power in order to enter the area of responsibility and risk - that is, into the area of the individual.

If this process of change proves to be inadequate or inappropriate within the time scale necessary for the cultural change, then the enterprise will find itself in serious difficulties in terms of its development - or even, survival.

6. *Human sphere*: The radical nature of a process of transformation of this nature has a key effect in this area. Such a change can only be achieved through people, but these must both modify their values and behavioural norms and also adapt to the requirements of the new knowledge. All of this constitutes a personal challenge, sometimes difficult to accept and overcome.

The processes of the adaptation of people is the key to the success of business transformation. The requirement for the development of a new capacity to manage staff based on dialogue in terms of business activities and the establishment of individual goals represents a total turnaround in the way of viewing human resources within a company.

The need for a new retributions policy related to performance and a promotions policy related to competence requires another way of managing staff in a competitive company and a new way of understanding the development of the individual and the company.

7. *Implementation sphere*: The greatest difficulties in the processes of transformation of privatised enterprises occur at the moment when action plans for change are implemented. Such a change can be difficult to effect if it is not accompanied by the development of a learning-to-change capability in all persons involved so that they become participants in the transformation rather than just mere observers of the change.

This, therefore, requires that there has been a development of a wide range of confidence capital, so making it possible to change staff from onlookers to protagonists. This is not an easy

task in business structures ossified during decades as bureaucratic cultures.

The areas above are the keys to the processes of company transformation, being the fundamental engine driving forward in the development of competitive markets. If the development of such a driver is not achieved, then there will be no change in the business culture and there will be attempts to close the markets in order to slow down the processes of transformation in privatised enterprises.

For this reason any enterprises which do not privatise will find themselves distant from these transformation processes and, in a climate of growing globalization, their survival will prove very difficult.

VI. CONCLUSIONS

1. The success of any process of company transformation, as in any other institution, depends on multiple factors in determining the results. Company privatisation is one of the most complex transformation processes, as evidenced by the experience of enterprises in the former East Germany.
2. Privatisation, being a social-political process, has frequently caused widespread controversy. At the present historic moment,

characterised by the opening up of the economy as a result of globalisation and the need for and consequent increase in competitiveness, the processes of privatisation must be regarded as the key to the changes in economic-social processes. Today, the success of all privatisation - and that means the survival and success of a company - depends upon integration within this new economic and social dynamic.

3. A process of privatisation has no chance of success if it does not provide the right conditions for opening up and vitalising the markets; this requires from an enterprise a fundamental break with its traditional business culture. And the quicker the time of adaptation, the more possibilities for success there will be. The generation of a new market-based dynamic is, in part, a consequence of privatisation; but, at the same time, there is no guarantee of the success of privatisation if markets are not deregulated and competition not intensified. And it is here where the current problematic situation exists with restricted oligarchies and the possible results of mergers which do not contribute to market vitalisation.

4. The present conditions of growing globalization of the economy allow, without doubt, for the achievement of greater success in the process of privatisation than closed markets would. The possibility for privatised enterprises to enter into the new

context of division of work guarantees them both a rapid increase in value and a rapid business transformation. Without the participation of the privatised company in more globalised work divisions, it will be difficult to effect the transformation process.

Current conditions are the determining factor for the wide ranging success of privatisation; and never before have such conditions existed.

5. Privatisation only makes sense when it also produces the conditions right for the transformation of the company and this requires a fundamental break with its existing business culture. Such a transformation of a company can only take place when the company, either directly or indirectly, comes to terms with the globalised markets. And so the increasing confrontation of the company with the capital markets provides the best possible stimulant for a growing orientation towards economic, and also social, efficiency within the company, affecting it at all levels: organs of government, management, workforce.
6. The key to all business change, all changes of culture, although impelled by the competitive open markets, depends for its realisation and success on the capacity of management to adapt itself and the workforce to the changing situations of the new

surroundings and on the development of a new way of managing the company orientated towards people as customers, staff and shareholders. People must be brought together, their preferences and interests must be identified and they must be involved with the company. Such a change in public enterprises can only be achieved through privatisation.

7. The analysis of the process of privatisation, its contribution to cultural changes in such enterprises resulting from their integration in the processes of globalization and their approximation to the market, constitutes the new way of measuring the success of a privatisation. And it is this process within the European Union which can provide the response, as set out in the Agenda 2000, to a greater convergence of the economic and the social. It is here where there exists the greatest potential for the competitive development of the European Union.
8. To ensure the development of privatised companies, respecting the criteria of economic and social efficiency, will be to offer the best guarantee of their survival through their integration into the global markets. Such a process of transformation is viable if it is possible to accelerate the break with the existing business culture in a way which facilitates the integration of modern ways of managing people and systems. Learning a new way of

management is the greatest contribution of the dynamic globalisation of the economy.

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