ENTERPRISE RESTRUCTURING AND ITS DETERMINANTS: EVIDENCE FROM THREE ALGERIAN PRIVATISED ENTERPRISES

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Abstract

Our understanding of enterprise restructuring in a transition context is predominantly drawn from the ex-communist countries of Europe. Those countries have their own cultural values, social structures, were subject to the Soviet political and economic management styles and had their own political and economic reasons to move to the free market system. Without doubt, these factors had influenced their enterprise restructuring and its determinants. Given this influence, our understanding of enterprise restructuring and its determinants can be considered limited especially when one takes into consideration the fact that many developing countries with centrally planned economic systems had moved to the free market system almost at the same time as the ex-communist countries. Very important, the restructuring behaviour of their state and privatised enterprises and the determinants of their behaviour have been considerably neglected by researchers. This neglect was, indeed, a stimulus to carry out a research study on enterprise restructuring and its determinants in Algeria.

The aim of this research study was to develop an understanding of the kind of restructuring taking place in the state enterprises slated for privatisation in Algeria and the factors that stimulated or hindered their restructuring from 1990 to 2005. Algeria is a country that combines a mixture of historical backgrounds. It has a history of more than one hundred years of French colonial rule and has a deep rooted link with the Arab and Islamic culture. It is also a country which had followed, after gaining independence from the colonial rule in 1962, its own style of socialism where the private sector in

light manufacturing and some service industries was tolerated and workers in the state-owned enterprise were given the power to share the decision makings with management. More significantly, Algeria was and still is a country where almost 90 percent of its foreign revenues come from hydrocarbons export. Its move to the free market in 1989 came as a result of the sharp drop in the price of oil and therefore in its foreign revenues. It was a move imposed by the IMF in return for the extension of its debts repayment and the provision of fresh loans. With these socio-cultural, political and economic characteristics of Algeria, it was expected that the restructuring behaviour of the enterprises under investigation and the determinants of this behaviour would exhibit some differences from those experienced in the transition countries of Europe.

The investigation was carried out on three enterprises operating in different industries: Saidal in pharmaceuticals, the SNVI in heavy vehicles and Eriad Alger in wheat processing and manufacturing. The data were collected and analysed using qualitative and quantitative research strategies. Semi-structured and unstructured interviews were used to collect data on the restructuring actions and their determinants. They were carried out with senior managers at the head offices, divisions and functional departments of the enterprises; managers at the trade union (UGTA); managers at one state-owned consultancy organisation called CNAT; managers at the ministry of industry; two visiting managers at the trade union (UGTA); and a small number of workers of the three enterprises under investigation. A survey using a self-completion questionnaire was also used to investigate the

characteristics of the top management teams of the three enterprises. Primary documents such as state, private company and media reports and secondary documents such as journal articles and books were also used.

The findings drawn from the study reveal that Saidal was the only enterprise that restructured effectively despite the strong competition in its market. This was possible through the determination of Saidal's President General Manager and his top management team to restructure and through the enterprise partnership with many multinational firms. The findings also indicate that controllable and uncontrollable factors had a significant impact on the restructuring behaviour of the three enterprises. The controllable factors were the corporatisation of the state enterprise and the underdevelopment of the institutional environment. Corporatisation was an important incentive that encouraged effective restructuring but this was possible only when the enterprise was financially healthy, as was the case with Saidal. The financial autonomy of Saidal reduced the intervention of the government administration in its internal affairs. Government intervention was strong when the enterprise was perceived by the government as strategically important as was the case with the SNVI or when the government intended to totally privatise the enterprise as was the case with Eriad Alger. The underdevelopment of the institutional environment, especially corruption, the shortage of technical skills and the lack of adequate market information, hampered competition and slowed down effective restructuring. The uncontrollable factors were the trend in the market and the cultural values. The growing market for pharmaceuticals in Algeria was a

stimulus for attracting foreign investment in Saidal which consequently encouraged effective restructuring. As for the cultural values, the family and friendship ties, the social responsibility stemming from religious belief, the regional belonging and the legacy of French colonial rule in Algeria played a significant role in the selection and recruitment of managers and workers, in slowing down the progress of shedding worker surplus and in slowing down foreign participation in privatisation.

Future research on enterprise restructuring and its determinants in Algeria should be carried out on a larger sample of enterprises with different ownerships using quantitative and qualitative research strategies. Research should also explore enterprise restructuring and its determinants in other developing countries which moved to the free market system and in countries which share similar cultural and social structures with Algeria. It is time for researchers to move away from exploring effective and ineffective enterprise restructuring and concentrate more on exploring how partnership with foreign firms, the shortage of technical skills, the lack of adequate market information and particularly cultural values, be it religious beliefs, customs or the legacy of colonialism, affect the restructuring behaviour of state, privatised and private enterprises and the determinants of this behaviour.

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Chapter 1

Introduction

Since the early 1990s, dramatic changes have taken place in most countries with the centrally planned economic system. The changes involved abolishing the centrally planned system and replacing it with mechanisms of the free market such as liberalising trade, prices, the convertability of the local currency and reforming the policies of employment. The essential elements in the process of economic transition of these countries was the transfer of state ownership to private hands and the fundamental restructuring of the state and privatised state enterprises in response to the new economic environment. With restructuring, the enterprise sought to reduce its losses and improve its financial and operational performance in order to be able to compete in domestic and international markets and consequently lead the national economy into growth.

A vast literature (which will be examined in more detail in chapter two and three) is available on enterprise restructuring in transition economies. Researchers such as Simeon Djankov, Stijn Claessens and Gerhard Pohl tried to understand how an enterprise whose decisions and operations were totally subject to the instructions of the government administration had managed to deal with the threat of competition especially from goods from the developed economies and in an environment where the mechanisms of the free market had just been created. They had also tried to understand why some countries, although they were slow to privatise their state-owned enterprises, enjoyed faster economic growth than those that privatised fast. Accordingly, the extent of restructuring varied between transition countries and also between industries in the same country. Restructuring, according to this literature, had taken place in four broad areas of activities of the enterprise: the contraction of enterprise assets by closing down the less productive units and divisionalising the core activities; the expansion of activities by modifying the existing products or introducing new ones, introducing new functional departments such as marketing, sales and finance; cutting the surplus of workers, abolishing the social benefits that the workers enjoyed during the planned economic system and implementing the practices of human resource management; and the replacement of top managers that served during the planned system with market-oriented managers.

What is also interesting in the literature on enterprise restructuring is that the bulk of the research studies had concentrated trying to understand the factors inside and outside the enterprise that had determined its restructuring behaviour. Five major determinants seemed to have been at play in enterprise restructuring: Privatisation of the state-owned enterprise, the type of owners in control of the privatised enterprise, managers' stake in the privatised enterprise and their career concerns, the budget constraints and the extent of product market competition. Each of these determinants had contributed, according to Claessens *et al.*, (1997a), an essential but often a statistically marginal aspect to enterprise restructuring.

Despite the fact that many developing countries with the centrally planned economic system had moved to the free market system almost at the same time as the ex-communist countries in Europe, our understanding of enterprise restructuring and its determinants is predominantly drawn from the experience of the ex-communist countries in Europe and this made as a consequence our understanding on this issue limited. The purpose of this study was therefore an attempt to expand our understanding on this issue by looking at the experience of a developing country: Algeria. Algeria was an interesting case to study for two main reasons. The first reason was the fact that the state and privatised enterprises in this country had never been investigated in terms of their restructuring behaviour and the determinants of this behaviour since the country moved to the free market system in 1989 and since the state enterprise was slated for privatisation in 1994. So far, the research on the context of transition of Algeria to the free market system had concentrated almost exclusively on exploring the impact of the programmes for structural adjustment, imposed by the IMF, on the country economic activity and the social life of the population (Oufriha 1997a, 1997b; Abedou, 1999; Abdoun, 1999; Arhab, 1999; Benabdallah, 1999; Boukella and Brabez, 1999; Djenane, 1999; Kabri and Guendouzi, 1999; Medikoune, 1999; Musette and Hammouda, 1999; Oufriha, 1999) and only few researchers had explored the methods and institutions of privatisation (Belattaf, 1997; Sadi, 2005). The second reason was the fact that Algeria is a country different from the ex-communist countries in Europe in terms of its socio-cultural structure and its political and economic developments in pre and post transition making it as a result a country with its own characteristics.

To briefly highlight Algeria's characteristics; in its modern history, Algeria was subject to French colonial rule for more than one hundred years (1830-1962). This rule was fundamentally based on a strategy of 'Apartheid' similar to that followed by the white settlers with the Native Americans in North America (Clegg, 1971). It tried to wipe out the majority of the Algerian population and to eradicate its Islamic and Arab identity. More significant, it created a society deprived of basic human rights such as education, housing and health services and a labour force predominantly based on primitive agricultural skills. After independence in 1962, the newly created state of Algeria was faced with serious economic and social problems. These problems were partially resolved through the adoption of socialism. The government owned and controlled the means of production and therefore the state-owned enterprise was expected to play an economic and social role. It was expected to be productive to increase the national economic growth, to create jobs, to reduce the economic and social disparity between the different regions of the country, and to provide the social benefits to the workers and their families. Through the huge revenues drawn from the export of hydrocarbons - which was and still is the major commodity of Algeria for export - during the seventies, many of the objectives assigned to the state-owned enterprise were achieved. Huge investments were made on projects to expand the activities of the state-owned enterprise, predominantly with the assistance of experts and the technology from both capitalist and communist countries, more jobs were created and the standard of living of the population had improved.

But the inflow of revenues drawn from hydrocarbons did not last long. The heavy drop in the price of oil in the mid eighties had led to a sharp drop in the government foreign revenues and as a consequence this led to a sharp drop in the production of the state-owned enterprise resulting in a dramatic decline in the nation's economic growth. The drop in foreign revenues put pressure on the Algerian government to ask for more loans from international capital markets to keep the operations of the state-owned enterprise running. And by 1988, it became very clear that Algeria was overburdened with heavy foreign debts which were very difficult to repay. This situation forced the government to enter into negotiations with the IMF and the World Bank to secure loans in return for abolishing socialism and introducing reforms to create the free market system where the privatisation of the state-owned enterprise was a major ingredient of these reforms and where its restructuring to cope with the threat of competition in its product market has become essential to secure its future survival.

Based on these socio-cultural, political and economic backgrounds, the research study tried to answer the following question: What kind of enterprise restructuring and its determinants one would expect in the Algerian state enterprises slated for privatisation, given the fact that Algeria is a country differnt from the ex-communist countries in its cultural and social structures as well as its political and economic developments in pre and post transition? It was expected that the answer to this question would bring to light some new insights on the topic of enterprise restructuring and its determinants in a transition context. To answer this question, a combination of qualitative and quantitative research approach was used. Since the restructuring actions were constructed by the individuals in direct and indirect links with these enterprises, the interpretation of these actions by these individuals was very important. Therefore, a qualitative research strategy was the suitable strategy to use. Also, since the purpose of the research was to see whether the Algerian enterprises would exhibit restructuring behviour and its determinants different from those experienced in the ex-communist countries in Europe, the research was in fact inductive. Semi-structured and unstructured interviewings were the main qualitative methods used in the collection and analysis of data. In addition, as the replacement of top managers in the enterprises slated for privatisation would form an important part in their restructuring actions, a survey was used to explore the extent of changes taking place in the characteristics of their top management teams. Clearly, though the main approach used in this research study was interpretative and inductive, the approach was complemented by quantitative methods such as a survey as well as by primary documentation.

The research was carried out on three state enterprises slated for privatisation operating in different manufacturing industries from 1990 to 2005. The enterprises were Saidal operating in the pharmaceuticals industry, the SNVI operating in the heavy vehicles industry and Eriad Alger operating in the wheat processing and manufacturing industry. Purposive sampling was used to select the participants. Semi-structured interviews were carried out with thirty-nine participants. The participants were senior managers at the head offices, at the divisions and at the functional departments in the three enterprises. The interview questions covered issues such as the ownership structure of the enterprises, the perception of managers of their product markets, the product market strategies followed by the enterprises as well as their organisational structures and their employment practices. As for the survey, the respondents were selected using a quota sampling. Only senior managers who had direct involvement with the corporate strategic decision makings were selected. These were the chief executives, the general secretaries, the division managers and the functional managers from planning, marketing, production, human resources, finance and research and development departments. Seventy nine questionnaires, out of a sample of one hundred and eleven respondents, were filled in and returned. The data collected from the interviews and the questionnaires were cross-checked using participants outside the enterprises who had direct and indirect links with the three enterprises and also using primary documents such as state, private company and media reports. The participants outside the three enterprises were managers at the headquarters of the trade union (UGTA), managers in a consultancy organisation called the National Centre for Technical Assistance (CNAT), managers in the sponsoring departments of the enterprises under investigation located at the ministry of industry, one retired President General Manager of the enterprise called Giplait, a manager from the holding enterprise known as CABELEQ and six workers belonging to the three enterprises. The interviews with these participants took the form of unstructured interviews. In total, fifty-four semi-structured and unstructured interviews were carried out in this research. The data collected from the interviews were coded in order to generate new issues not covered by the literature on enterprise restructuring in the ex-communist countries. The data collected from the questionnaires were analysed using a univariate analysis with frequency tables to establish the similarities and differences between top management characteristics in the three enterprises. Other materials such as state, private company and media reports; journal articles and books were also used to review enterprise restructuring in the ex-communist countries and the evolution of the state-owned enterprise in Algeria during the socialist period and the reforms introduced in the macroeconomic environment and the state enterprise during the transition to the free market system.

The study was divided into nine chapters. Chapters two and three reviewed the main previous research focus on enterprise restructuring drawn from the experience of the ex-communist countries in Europe. Chapter two discussed the dimensions of enterprise restructuring and chapter three discussed the determinants which stimulated or hindered enterprise restructuring. A detailed discussion and analysis of the political-economy of Algeria since independence to the present day were given in chapter four and five. Chapter four discussed and analysed the political-economy of Algeria during the period of socialism. In this chapter the focus was particularly on the government/state-owned enterprise relationship. This was done purposely. This discussion and analysis helps the reader to understand not only the evolution of the internal management of the state-owned enterprise in Algeria since independence but also to clearly see, through the findings drawn from the three case studies, how much the mechanisms of the centrally planned system were still present in the enterprises investigated. In chapter five, the period of transition to the free market system, which started in late 1987 and has been going on to the present day of writing this work, was discussed. Chapter six discussed the methodology used in the collection of data required for this research. The analysis of the data collected was covered in chapter seven and eight. The restructuring behaviour of the cases was analysed in chapter seven and the determinants of their restructuring behaviour were analysed in chapter eight. Chapter nine concluded.

Chapter 2

Dimensions of Enterprise Restructuring

2.1. Introduction

The only experience which tells us how an enterprise restructures in a context of transition from socialism to capitalism and the determinants which stimulate or hinder its restructuring is predominantly drawn from the ex-communist countries in Europe. However, after two decades since these countries have moved to the free market system, we have now an understanding on how different countries proceeded in their strategies to move to the free market system and how their state and former state-owned enterprises adjusted themselves to cope with competition. The experience of these countries also tells us that the transition to the free market system was not easy as thought of by some politicians and economists and not without a high price to pay. This chapter discussed, in brief, the economic growth and the response of the state enterprise to the economic shocks of the early years of transition. It also discussed in detail the main dimensions of enterprise restructuring in different countries. This was followed by a discussion of the empirical evidence on the effect of restructuring on the enterprise economic and operational performance.

2.2. Economic Growth and the Response of the State Enterprise to the Economic Shocks in the Early Years of Transition

In the early years of the transition, all countries, though with varying degrees between them, had seen a sharp decline in their economic outputs. The decline, in comparison to 1989 or a year before the transition, reached on average between 13 and 25 percent in Central and Eastern countries respectively, about 40 percent in the Baltic countries, 45 percent in Russia and a little more in the Newly Independent States (NIS) of the former Soviet Union, and 65 percent in the Ukraine (Svejnar, 2002). This decline was triggered by two major macroeconomic reforms: the liberalisation of trade and the hard budget constraints. The liberalisation of trade exposed the state-owned manufacturing enterprises to strong competition from goods imported from the developed economies. As the products of the state-owned enterprises suffered from poor quality, the demands for their products dropped sharply and many of them became in serious financial troubles to a point where some were unable to pay their suppliers and their workers. In addition to competition from imports, many state-owned enterprises found themselves in deep financial deficits because of the hard budget constraints imposed upon them by their state treasuries and banks. In countries suffering from heavy foreign debts, like for example Poland and Hungary where their debts were estimated to reach around 50 percent of their Gross Domestic Products (GDPs), the state treasuries of these countries cut drastically their subsidies to loss-making state-owned enterprises, as a measure to reduce the country budget deficit, stimulating as a consequence many enterprises to engage in restructuring to survive.

Studies on enterprise restructuring in transition countries (Carlin *et al.,* 1995; Pohl *et al.,* 1997; Estrin *et al.,* 1995; Brada and Singh, 1999) reported that enterprises had engaged in a wide variety of restructuring in pre and post privatisation period. In the early years of transition, the state-owned enterprises coped with the adverse conditions created by the transition by taking adjustment measures in their internal operations to reduce costs. This type of adjustment is often referred to as 'reactive/defensive' restructuring (Carlin and Aghion, 1996) which is in contrast with 'strategic/comprehensive/deep' restructuring. The latter entailed the redeployment of assets based on a forward-looking business strategy. The empirical findings available to date show that this type of restructuring took place, at least in the early years of transition, only in the privatised state-owned enterprises and particularly those owned by foreign investors (Carlin and Aghion, 1996; Djankov, 1999). Though restructuring can encompasse many dimensions of activities at different levels of the enterprise, research on enterprise restructuring in transition countries had concentrated on only four dimensions which this chapter will discuss in detail in the next section.

2.3. The Main Dimensions of Enterprise Restructuring

Restructuring is a complex process. This complexity makes it almost impossible to give an exact definition to the concept 'restructuring'. In the context of transition, the concept is defined broadly. Djankov and Murrell (2000) define it as the actions undertaken by enterprises as they adapt for survival in a market economy. Pohl *et al*. (1997: 1), on the other hand, define it as "Firms in all countries must continuously restructure to monitor profitability in the face of a changing economic environment, technological progress and competition from other firms". These two broad definitions make it clear that restructuring is the only way that allows an enterprise to be profitable and survive in a competitive market. Studies of Carlin *et al.*, (1995), Hendley (1998), Djankov and Pohl (1997), Czaban and Whitley (2000) and Linz (2001) used four dimensions to understand restructuring in transition countries. These dimensions were also used in most case studies surveyed by Estrin *et al.*, (1995) and by Brada and Singh (1999). The first dimension encompassed the shedding of unproductive assets - such as the disposal of social assets such as social housing, canteens, kinder gardens and recreational services - and the closing down of production plants with no markets. The second dimension encompassed changes introduced in production processes and technology and in the output related activities such as introducing marketing, sales and finance departments and new products. The third dimension encompassed changes brought in employment practices such as downsizing the number of workers, introducing new procedures in recruitment and selection, compensation and rewards and training and development. And the fourth dimension dealt with changes in control, in other words, the replacement of managers from the communist period with managers with market-oriented managerial skills. Below, is discussed each of these four dimensions in more detail.

2.3.1. Asset Contraction Policies

The common wisdom shared by most economists is that managers in the transition countries should design a business strategy that should focus on the most productive assets in the enterprise in order to achieve the enterprise efficiency and its competitiveness. Under communism, however, the state-owned enterprise was highly integrated. It was in the form of an association, or what was commonly called in many communist countries a 'Kombinat' (Berliner, 1957). The Kombinat encompassed several state-owned enterprises operating in different activities. In Czechoslovakia, for example, after the industrial reforms of the early 1960s, the whole manufacturing sector was divided into 100 Kombinats, each with an average of some 30,000 workers. In engineering industry, for example, the United Automobile Works association was composed of tens of medium and small enterprises employing some 140,000 workers (Jirasek, 1972: 140).

During the sixties and seventies, big was perceived better. Even in market economies, many private and public enterprises were large in size. In the communist context, however, the large size of the state-owned enterprise was motivated by political, economic and social considerations. Politically, the ruling communist party was in control of all the means of production in order to concretise the communist ideology in society. Under a central planning government organ, the broad outputs for the national economy were planned as well as the allocation of the outputs and resources of each sector of the economy and the outputs and resources of each state-owned enterprise. To exercise its tight control over the whole national economic activity, the government put at the head of each Kombinat a director who acted as mediator between the communist party and the government administration and the managers in the various enterprises in the Kombinat. It was assumed that by having one director to deal with, the directives of the government would be communicated easily to the state-owned enterprises and the government would be more informed with the problems of these enterprises. Economically, the Kombinat was a monopoly operating in a non-competitive market. Under communism, competition was condemned. The communist ideology believes that resources can be optimised by achieving economies of scale and as a result managers of the state-owned enterprises should strive first and foremost to increase the volume of outputs. The quality of outputs came only second in importance. Also important to mention here is the fact that under the national planning system, resource allocation was a serious problem. Inputs supply was unreliable and suffered from low quality. To avoid the shortage of supplies, most state-owned enterprises built up their own input manufacturing units and increased the number of their warehouses to store surplus of raw materials (Berliner, 1957) increasing as a result the size of the state-owned enterprise. As for the social consideration, the state-owned enterprise was assigned the objective to concretise the social policies of the ruling communist party. It was required to provide a number of welfare services to its workers and their families. The result was that a large number of units with no production functions were created such as housing, cafeterias, health care centres, cooperatives to sell goods at cheaper prices, sport centres, and vacation resorts. These were all integrated in the structure and expenditures of the state-owned enterprise.

With the collapse of communism, the Kombinats in many countries had to be broken down into medium and small state-owned enterprises. Many of the newly created state-owned enterprises inherited unproductive units, unprofitable activities and a large surplus of assets which included unsold inventories from cancelled orders, material inputs and equipment no longer used. In their sample of 21 large manufacturing and trading enterprises with different ownership structures operating in Slovakia for the period 1991-1996, Djankov and Pohl (1997) found that all the enterprises sold their housing to employees or transferred it to their municipalities. And the majority of the enterprises sold or contracted out their recreational facilities and cafeterias. As for the surplus of assets, only few enterprises retained them. The majority of enterprises scrapped them or sold them to small private firms. Similar findings were reported by Czaban and Whitley (2000) in their case study of 18 enterprises with different ownership structures in Hungary for the period 1990-1996. Their study revealed that the majority of enterprises in their sample closed their unproductive activities and only very few enterprises sold them to private investors. And they pointed out that the control type, the financial position of the enterprise and its size played a key role in the disposal behaviour. Foreign controlled firms and financially troubled state-owned enterprises tended to close these activities whereas financially stable state-owned enterprises and manager controlled enterprises tended to sell them. They also added that most enterprises, regardless of their ownership type, concentrated on a single major production line such as buses or particular kinds of drug that contributed over 75 percent of their total sale revenues.

The disposal of unproductive units and the concentration mainly on the core activities was tailored to achieve several objectives. Among these objectives was to allow the enterprises to be flexible to changes that might occur in their product markets and also to make it easy to break up the core activities into divisions often as a first step to their privatisation. The break up into divisions was also an organisational structure which would enable managers to clearly see the performing and non-performing production plants. Non-performing plants with future potential would be restructured and those without would be closed down. In addition, the concentration on the core activities was a strategy used to attract foreign investors. There is a body of literature now available on the motives of foreign firms investing in transition countries (Fahy et al., 1998; Bartley and Minor, 1994). In addition to the investment facilities provided to them by the governments of these countries such as tax concessions and the freedom to dispatch profits outside these countries, foreign investors tended to be more willing to invest in enterprises that were specialised in their production and had reduced significantly the surplus of their labour force.

2.3.2. *The Expansion Policies*

The modernisation of equipments, the construction of new production lines, the creation of new functional departments such as marketing and finance and the production of goods that are competitive in domestic and international markets were all investments needed in the transition period. With the collapse of communism, the state-owned enterprise found itself overburdened with a high obsoleteness of its fixed assets, products with quality not recognised by international standards and products that their markets disappeared especially with the collapse of the CMEA - Under communism, the CMEA was a market created to regulate the trading relations between the Eastern and Central countries and the Soviet Union and it had instigated a degree of specialisation within the CMEA member countries. Certain countries became the main supplier of particular products for the entire CMEA members. For example, Hungary was the major supplier for buses, pharmaceuticals products and Bulgaria the major supplier of electronics. To survive competition, managers had to seek for ways to upgrade their products and protect their markets or create new products and look for new markets. In their case study of Slovakian enterprises, Djankov and Pohl (1997) found that only a handful of enterprises in their sample maintained in 1996 the products that existed in 1991. Most enterprises introduced products tailored for the markets in Western Europe in particular. The outputs destined to the CMEA markets which were on average around 46 percent in 1991 dropped sharply. The revenures drawn from these markets became only about 15 percent of the total revenues of these enterprises in

1996. About 47 percent of their revenues were drawn from Western markets. The reorientation to markets in Western Europe was possible because many enterprises in the sample became subcontractors of West European, particularly German and Austrian, firms. Under the influence of the contractors, these enterprises made substantial investments in appropriate technology, marketing, sales and quality control systems. Many enterprises obtained as a result international total quality assurance certifications such as ISO 9001 and ISO 14001. The investment in technology and quality processes was possible through the easy access to capital from foreign and domestic private banks under the guarantees of their foreign partners. The case study of Czaban and Whitley (2000) of the 18 Hungarian enterprises also revealed that the easy access to capital had been responsible for the modification and creation of new products in the foreign firms which operated in Hungary during the first half of the 1990s. The authors argued (2000: 12) that "Access to resources was clearly a crucial condition for relative market success. The companies that had little or no debt and were making some profits were the ones that managed to introduce new products and improve existing ones". Their study also suggested that enterprises that did not have a change in their customer base were the ones that did not introduce major shifts neither in their products nor in their suppliers.

2.3.3. Changes in Employment Policies

Under communism, the labour surplus was endemic in the state-owned enterprise. To quote the former East Germany as an example, the surplus of labour in the state-owned enterprise in this country was estimated to be between 50 and 70 percent (Lumley, 1993: 26) and a large number of this surplus was made up of semi-skilled and unskilled workers. Under communism, worker surplus was ideologically and socially motivated. Marxism does not believe in unemployment and therefore one of the most important missions of the government was to guarantee work to every citizen (Godson, 1981). More significant, the majority of workers enjoyed permanent work contracts (Redman and Keitley, 1998).

The closure and sale of unproductive units and some core activities during the early years of transition had resulted in a massive reduction in the number of employees in the state-owned enterprises (Uwe, 1996; Nesporava, 2002; Socha and Weisberg, 2002) especially in countries where restructuring had to precede privatisation like in East Germany, Poland and Hungary - in some countries like for example Czechoslovakia asset restructuring was not allowed before privatisation to ensure Lizal *et al.*, (2001) explained "Against unfair dealing by managers". It was feared that managers would strip for themselves and their friends the best assets of the state-owned enterprises. In their case study of 21 Slovakian manufacturing and trading enterprises, Djankov and Pohl (1997) found that the enterprises cut on average half of their labour force. Similar findings were reported earlier by Carlin *et al.*, (1995) and Claessens *et al.*, (1996). Claessens *et al.*, (1996) explained that labour reduction in the Slovakian manufacturing enterprises was high because of the absence of labour unions.

One should point out that East Germany had the highest level of workers lay offs. More than three million workers lost their jobs during a short period of 1990-1994 (Uwe, 1996: 4). Russia on the other hand was slow to lay off workers despite the decline in sales. Instead of cutting the number of workers, Russian managers preferred to cut the workers' wages and their working hours. Commander and Tolstopiatenko (1996) gave two explanations for this employment behaviour in Russian enterprises. One was the explicit and implicit subsidies provided by the government to state and former state enterprises a fact which did not urge managers to reduce workers costs to contain losses. Two, was the feeling of managers that they had social responsibility towards their workers and keeping them in their jobs was a necessity. According to these two authors, despite the decline in sales in most Russian manufacturing enterprises during the period 1991-93, the social benefits provided to workers was roughly around 30 percent of their total labour costs and enterprise spendings in social assets was roughly around 4 percent of Russia's GDP.

To reduce the negative effect of workers downsizing on the income distribution in society, many transition countries introduced the systems of unemployment protection. The systems were funded by the IMF and were modelled on those systems found in West European countries. In Russia, for example, two systems of unemployment protection were used: insurance benefits and welfare. The insurance benefit linked the amount of unemployment benefits with the earnings that a person received and the length of paid employment prior to unemployment. The welfare system provided several types of social benefits to unemployed workers and their families (Chetvernina, 2003). But the unemployment protection systems proved to be difficult to implement in many transition countries. Benefits were often not provided at the right time and with the right amounts as prescribed by the laws and often the benefits did not go to people who were entitled to.

Though in many Central and Eastern transition countries, the implementation of the unemployment protection systems have improved significantly in recent years, East Germany was the most successful in implementing these systems. In order to achieve parity with the income of the West German citizens, the same social benefits provided to the unemployed in West Germany were provided in East Germany. Also, those in employment had seen their income increased since the unification in 1990. Between 1991 and 1995, workers income in East Germany increased by 42 percent (Uwe, 1996: 11). Comparing the household income between East Germany and the rest of the transition countries, Uwe (1996: 20) argued that in East Germany "There exists a relative comfortable and egalitarian position, whereas in other post-communist countries, a broad majority of households have serious trouble to make ends meet". The decline in the standard of living in most transition countries was also discussed by Beleva (quoted in Nesporava, 2002). According to this writer, more than 6 percent of the Bulgarian population lived in 2001 on US$ 2.15 per day. This figure was four to five times higher if the poverty threshold of US$ 4.2 per day was used.

The transition to the free market system had created an income differentiation not only between those who work and those without work but also between those in employment. Many enterprises had introduced the practices of Human Resource Management (Koubek and Brewster, 1995; Tung and Havlovic, 1996; Garavan *et al.,* 1998; Mills, 1998; Taylor and Walley, 2002; Weinstein and Obloj, 2002) and therefore workers were rewarded according to their performances and their skills. Carlin *et al.,* (1995) reported that managers in many enterprises in their sample had rewarded workers with good performances high wages and bonuses. These monetary incentives, according to Fidrmuc (2007) had been responsible, more than anything else, for the productivity increase in the 737 enterprises he surveyed in the Czech Republic. High wages and bonuses were also provided as a policy in many state-owned enterprises to retain their skilled workers fear from losing them to the private sector which offered high wages. The disappearance of the production targets followed by the state-owned enterprise during the communist era meant that the privileged position and the high wages enjoyed by production workers (Seeger, 1981; Lane and O'Dell, 1978) during this era had tremendously been reduced during the transition period. To face the threat of competition, workers with skills in marketing, procurement, finance and management were regarded the most important human capital in the enterprise and had consequently been compensated more than anybody else and had been offered more training. One has to point out that the most beneficiaries from the introduction of the Human Resource Management and the transition to the free market system had been the managers especially those at senior levels such as Chief Executive Officiers. According to

Soulsby and Mark (1998), the wages of senior managers in the Czech Republic had been three times or more than those offered to line managers and much more higher than those offered to skilled workers.

2.3.4. Replacement of the 'Red' Directors

The association between management replacement and performance improvement of firms is well documented in the literature in the developed economies (Denis and Denis, 1995). In a transition context from communism to a free market system, the replacement of managers from the communist (often referred to them in the literature on transition countries as red directors) period was suggested to be desperately needed for two reasons. The first reason was the fear that if the 'red' directors remained in charge of the state and privatised enterprises, their close ties with the government administration built up during the communist period would slow down the process of transition and significantly would not lead to enterprise restructuring. How? The red directors would lobby for the restriction of the entry of new private firms in the market because these firms were likely to be much more efficient than their enterprises and would be a threat to the survival of their enterprises in the competitive market (Kaufmann and Siegelbaum, 1997; Schleifer and Vishny, 1994). The restriction of entry of new firms would reduce competition and therefore would not urge the 'red' directors to restructure their enterprises.

The second reason was the little knowledge of the ‘red’ directors about management skills needed in a competitive market. Communist managers were mostly from engineering backgrounds and knew their enterprises operations in depth but lacked the skills in marketing (Savitt, 2001; Shipley *et al.*, 1995; Pribova and Savitt, 1995) and sales, customer service, corporate planning and how to control finance (Ivancevich *et al.* 1992; Avraham, 1993; Luthans *et al.*, 1993; Longenecker and Popovski, 1994; Vlachoutsicos *et al.*, 1990; Longenecker, 2001). At the beginning of the transition, it was expected that privatisation would push the new owners of the privatised state-owned enterprise to bring in new managers who better match the enterprise productive assets and would introduce the proper incentives to stimulate managers to restructure and improve the performance of their enterprises. Until recently, the evidence has shown that the market for managers in the transition countries has remained underdeveloped (Djankov and Pohl, 1997; Claessens and Djankov, 1999). Claessens and Djankov, for example, found that out of the 21 Slovakian enterprises they investigated for the period 1991-1996, 20 enterprises saw their managers replaced by the ministry in 1991-1992. The authors did not explain the reasons for their replacement but they explained that the underdevelopment of the managerial labour market in Slovakia forced many enterprises to bring back the fired general managers and to promote new ones from inside their enterprises. Out of the 20 managers who were fired in the period 1991-1992, 19 came back in 1996.

Keeping managers from the communist period had serious implications in the internal management of the enterprise. In the case study of Chirikova (2001), though Russian managers had by the year 2000 showed signs of adaptation to the free market system such as seeking to increase their export, concentrating on a very limited number of products to win new market niches, by modernising their production processes and by looking for new partners, their management control had remained still centralised like at the time of communism. All the strategic, financial and commercial decisions were centralised in the hands of the Chief Executive Officer (CEO). In Hungary too, centralisation of control was a common practice among the enterprises investigated by Czaban and Whitley (2000). Though all the enterprises in their sample reorganised their core activities into divisions, these divisions were essentially production plants which lacked financial and commercial autonomy. The division managers operated under close supervision of the management team located at the head office and particularly of the CEO. They were required to report fortnightly to the CEO detailed information on outputs, stocks, costs, employment and all their internal operations. Interestingly, the centralisation of control was also practiced in enterprises owned by foreign investors. Foreign-owned enterprises made sure to give significant power to the finance manager, who was recruited from outside the country, to set budgets for the various levels of management in the enterprise. Two fundamental reasons the authors gave for the centralisation of control. For the enterprises owned by domestic owners, the reason was the difficulties to raise capital from the banks. For the foreign-owned enterprises, the reason was the unpredictability of the economic environment in the country. The authors also found that foreign-owned enterprises did not keep managers from the communist period. They tended to recruit their CEOs and members of their management teams from outside the enterprise they acquired and in some cases they recruited them from outside Hungary as a measure to improve the performance of their enterprises. The surveys of Barberis *et al.,* (1996) on Russian shops and Fidrmuc and Fidrmuc (2007) on Czech enterprises provided evidence that bringing in new managers had contributed to the improvement in the financial performance of the enterprises in their samples.

2.4. Impact of Enterprise Restructuring on Performance: Empirical Evidence

Two papers (Djankov and Pohl, 1997; Pohl *et al.,* 1997) have looked at the effect of enterprise restructuring on the financial and operational performance of the restructured enterprise. In their survey of 21 Slovakian enterprises, Djankov and Pohl (1997) used three measures to evaluate enterprise restructuring. These were: Labour Productivity (LP) defined as value added (value of sales less cost of non-labour inputs) divided by the man-hours of labour employed, Operating Profitability (OP) defined as the sales revenue less the cost of inputs and wages, and Total Factor Productivity (TFP) defined as the total outputs divided by (capital, wage, inputs). The authors indicated that significant improvement between 1991 and 1996 took place in the labour productivity, total factor productivity and operating profitability of most enterprises in their survey. Similar conclusion was found in the survey of 700 to over 1,000 manufacturing state and privatised state enterprises drawn from each of the seven transition countries (Hungary, Poland, the Czech Republic, the Slovak Republic, Romania, Bulgaria and Slovenia) that were investigated by Pohl *et al.*, (1997) for the period 1991-1996. They used the same financial measures as Djankov and Pohl (1997) and they added another measure which was the degree of profitability and loss that the enterprises in their sample recorded from 1991 to 1996. Under the profitability and loss measure, the authors categorised the enterprises into five categories, ranking from A to E where category A represented enterprises with a positive net profit after tax and category E with enterprises that they did not have enough revenues to even cover for the costs of material inputs. Their findings indicated that in almost all the seven countries, enterprise profitability increased significantly between 1991 and 1996 with more than half of Czech and Hungarian enterprises or 74 percent and 70 percent respectively and 50 percent of Polish enterprises fell in category A. Enterprises in Romania were the least to be profitable with only 24 percent falling in category A. Only very few enterprises fell in category E. They also pointed out that some enterprises which were profitable in 1991 became unprofitable in 1996 and some were unprofitable in 1991 and remained so in 1996 and some had completely ceased to exist. They concluded that restructuring is influenced by many random factors that cannot be controlled such as the location of the enterprise, the trend in the industry in which the enterprise operated, the level of debts of the enterprise at the beginning of the transition. They also argued that other factors that can be controlled might stimulate or hinder the restructuring behaviour of the enterprise. The next chapter will discuss these determinants in more detail.

2.5. Conclusion

In the early years of the transition to the free market, the economic growth of most transition countries declined sharply. The outputs of the majority of manaufacturing enterprises dropped sharply because of competition from goods imported from the developed economies and the hard budget constraints imposed upon them by their state treasuries and banks. This resulted in shedding off unproductive activities and activities that lost the CMEA markets which consequently a large number of workers became unemployed. To survive competiton, some enterprises especially those that became subcontrators to West European firms introduced many of the practices used in the advanced economies such as the installation of marketing, finance and human resources management departments. As managers with market-oriented skills were in short supply in most transition countries, many enterprises were still managed by managers from the communist period. Empirical evidence in Central and Eastern transition countries showed that restructuring had led to improvement in the financial and operational performance of most enterprises in these countries.

Chapter 3

Determinants of Enterprise Restructuring

3.1. Introduction

The previous chapter clearly shows that state and privatised state enterprises embarked in restructuring with different approaches. These approaches were determined by certain factors inside and outside the enterprise. The literature on the determinants of enterprise restructuring in transition countries took two directions. The first dealt with the pre-privatisation period. It shedded the lights on the institutional reforms that should be put in place to incite managers in the state-owned enterprise to restructure and survive in the transition context. This included the necessity to privatise the state-owned enterprise, giving a stake of ownership in the privatised enterprise to senior managers, imposing the hard budget constraints on the state-owned enterprise and creating the mechanisms to stimulate competition. The second direction tried to establish, almost exclusively, the impact of the type of owners on enterprise restructuring. This chapter discussed in detail these five determinants from the theoretical point of view, their application in transition countries and their impact on enterprise restructuring and enterprise financial and operational performance as provided by empirical evidence.

3.2. Privatisation of the State-Owned Enterprise

At the beginning of the transition, the initial emphasis was on privatisation as the key institutional measure to improve the economic and financial efficiency of the state-owned enterprise. The superiority of private ownership over the state ownership in resource allocation is not new. It goes back to the work of Hayek (1935). During the fifties and the early sixties, a small scale privatisation of state assets took place in some Western countries such as West Germany, Italy, Ireland and the UK (Parker, 1998). These early privatisations were not a systematic programme aimed at slimming down the state sector. In West Germany, for example, it aimed at curtailing the power of the trade unions and it was also an initiative to spread share ownership among the general public (Esser, 1998).

The ability of the public enterprise to be efficient was increasingly questioned in the developed economies during the sixties and the seventies because during this time, the performance of the public enterprise started to decline as a result of the strong competition it faced in the international and domestic markets. And consequently, various theoretical approaches were put forward debating whether or not the private firm was superior to the public enterprise.

3.2.1. Private versus Public Ownership: The Theoretical Debate

In his theory 'Some Economics of Property Rights', Alchian (1965) argued that the private firm was more efficient than the public enterprise because the former had the right incentives to monitor managers which were not found in the latter. According to his theory, in the private firm, the owners were clearly identified and their goal was clearly defined which was profit maximisation. To align the goal of the owners with the interests and goals of manager, the owners constantly monitored the behaviour of the manager. This behaviour was monitored via the stock market. A low value of the firm share in the stock market sent a signal to the owners of the poor performance of the firm. The owners might threaten the manager by selling their shares if the performance of the firm did not improve. This threat would force the manager to increase his/her efforts to improve the efficiency of the firm. Another incentive that monitored managers was the threat of takeover by a competing firm. In the public enterprise, these two incentives were not available. The shares of the public enterprise had no value and might not be sold and therefore the manager had no pressure to improve the efficiency of the enterprise. Also, one of the main problems in the public enterprise was the absence of a well defined goal for the enterprise. Profit might be a goal but it was not the major one. The owners of the public enterprise were highly diffused (all the citizens were owners), their goals were multiple and conflicting a situation which often led the manager to play one goal against another. Often, the manager followed the goal of the group of owners with more power, in other words the politicians. Because the public enterprise was constantly subjected to political influence, the consequence was that its economic and financial efficiency would always be inferior to that of the private firm.

The superiority of private ownership over public ownership had found great support, as it seems, in the British Conservative government under Thatcher. Under this government, a large scale privatisation took place. The first sector to be privatised was telecommunications and this happened in 1984. This was followed by gas in 1986, electricity in 1990-1991 and the railways in 1995-1997. By the end of 1997, the total of privatisation sales was estimated to reach some £65 billion and the share of the nationalised industries in the GDP dropped to less than 2 percent (Parker, 1998: 12). Many developed and developing countries found the lure of revenues from sales of the public enterprise very attractive. By the year 2000, the cumulative value of privatisation sale proceeds received by governments around the world was estimated to fall around $US 1.180 trillion (D'Souza *et al.*, 2001). Such sales had helped, as it seems, reducing the fiscal deficits of many governments.

But some economists were still not convinced of the supremacy of private ownership over the public ownership in resource allocation (Yarrow, 1986; Lin *et al.*, 1998; Kay and Thompson, 1986). These economists argued that without changing the ownership of the public enterprise, the public enterprise could be efficient if it operated in a vigorous competitive market. The competitive market provided information about costs and manager's efforts to the enterprise owners who would otherwise be in the dark. With this information, the owners could design better incentive systems and evaluated the efforts of managers more accurately and therefore aligning managers' interests with their own. For Kay and Thompson (1986), when the competitive market was equipped with hostile takeovers and bankruptcy, both private and public enterprises promoted their production efficiency. They also considered that both private and public enterprises were good in competitive markets and sluggish in non-competitive markets.

Competition as a mechanism to enhance the efficiency of the public enterprise was strongly rejected by Vicker and Yarrow (1991), Shleifer and Vishny (1994), Boycko *et al.,* (1996) and Shleifer (1998). According to Vicker and Yarrow (1991), even in a competitive market, politicians used the public enterprise to promote their political party and to win the elections. Shleifer and Vishny (1994) provided a model which held that managers of the public enterprise and politicians tried to maximise their own benefits. They argued that in order for politicians to increase the government financial assistance to the public enterprise, managers of the public enterprise must increase employment and wages and these were sufficient to increase public support to the politicians and the government policies. Increasing employment and wages without any economic justification were, according to them, one of the factors that contributed to the economic and financial inefficiency of the public enterprise. Boycko *et al.,* (1996) agreed with their argument and recommended the privatisation of the public enterprise as the best solution to stop the intervention of politicians in the affairs of the public enterprise and to increase its efficiency. In addition to efficiency, privatisation was regarded as an institutional mechanism that would help develop factor and product markets as well as securities markets (Megginson and Netter, 2001). In developed and developing market economies, efficiency and the development of securities markets were the main objectives attributed to privatisation. In transition countries, privatisation was perceived to be the main instrument that would create the foundations of the free market system by reducing the power of the government in the economic activity, creating a large base of local entrepreneurs, and creating the institutional environment that would support the private property.

3.2.2. Privatisation of the State-Owned Enterprise in Transition Countries: The Major Models of Privatisation

One of the key ingredients of the economic reforms of the ex-communist countries was the privatisation of the state-owned enterprise. However, the strategies followed in the privatisation process differed between these countries for historical and technical reasons. Though grouped together, the transition countries are different countries in term of their historical backgrounds in the pre-communist period and during the communist period and in terms of their governments' commitment to privatisation especially of large-size industrial state-owned enterprises.

Before the Second World War, the former East Germany, Czechoslovakia, Hungary, Slovenia and the south of Poland were capitalist countries with well established free market legal systems and institutions and had a strong industrial and scientific base. Czechoslovakia, for example, was amongst the ten most industrialised country in the world (Hanon, 1996). By contrast, the Balkan countries were predominantly agricultural countries dominated by the Ottoman Empire. They inherited the Turkish feudal economic and legal systems and a very primitive industrial base. As communism was imposed by the Soviet Union on Eastern and Central countries, many of these countries adopted communism with a 'modifier'. In Poland, for example, the private sector was tolerated in some service activities but predominantly in agriculture. The private sector owned some 80 percent of the agricultural lands contributing in 1988 to some 10 percent of the country GDP and employing around 10 percent of the total workforce (Rapacki, 1995).

In Poland as well as in Hungary and Czechoslovakia, and many other communist countries, strong resentment among many segments of the population to the Soviet style of economic management was present since communism was implemented in these countries after the Second World War. Consequently, in the 1960s and 1970s reforms of the state-owned enterprise were introduced in these countries giving some autonomy to senior managers to take product decisions based on consumer demands (Vincent and Lawrence, 2000; Pintilie, 1972; Jirasek, 1972; Lavigne, 1995). The reforms allowed some state-owned enterprises to enter into business collaboration with some Western firms to market their products in Western markets. The relaxation of trade with Western Europe had opened up the door wide for some political movements in these countries and also in the neighbouring countries to criticise the communist system and had increased their calls to be again part of the capitalist system. The first sign of the collapse of communism came with the fall of the Berlin Wall in 1989 when East Germany united with its neighbour West Germany. Quickly, many other communist countries abandoned communism and established the free market system.

With the collapse of communism, all the communist systems and institutions were dismantled and replaced by the free market ones such as the democratisation of the political system, the liberalisation of trade, price and capital. They all precipitated in the privatisation of the state property to reduce the role of the government in the economic activity and to expand private ownership. In their approach to privatise the state property, the transition countries had taken almost a similar approach when it concerned restitution and small privatisation but different approaches when it concerned the privatisation of medium and large-size state-owned enterprises. Properties confiscated or nationalised during the communist period were returned to their original owners or their heirs. The return of the properties took the form of assets return, compensations in cash or ownership of shares in the privatised state-owned enterprises As far as small privatisation is concerned, this involved the privatisation of shops, restaurants and various service activities. Some of these properties were transferred to municipalities, some sold under long-term lease arrangements and some were sold by auction for cash. Foreign investors were not encouraged to participate in small privatisation. In Czechoslovakia, for example, foreigners were allowed to participate only when a minimum price threshold could not be reached among the local bidders (Dana, 2000). The intention from the whole process of privatisation in transition countries whether in the form of restitution, small privatisation, the creation from scratch (*de novo*) of private firms and the privatisation of medium and large-size state-owned enterprises was to expand rapidly the number of domestic entrepreneurs. In Poland, for example, by the end of 1992, or only two years since the beginning of the transition, nearly 80 percent of retailers and wholesalers, 50 percent of transport companies and 40 percent of construction companies were in the hands of the private sector (Simoneti, 1993). The number was in steady increase in Poland and other transition countries since then.

In all transition countries, governments faced a number of technical problems when they engaged in the privatisation of medium and large-size state-owned enterprises. The institutions to support privatisation were absent in some countries and in others they were still at their embryonic stage of development. The stock markets and the laws to protect the private property and the institutions to enforce these laws were just created and the banks were still functioning as if they were under the communist regime. Also, the majority of the local population did not have enough savings to purchase the assets of the enterprises offered for sale. Though foreign investors were allowed to invest in these countries, their participation in privatisation was strongly resented by the majority of the population. There was also the problem of the strong opposition to privatisation by managers and workers of state-owned enterprises and also their supporters in parliaments. Faced with these problems, the governments in these countries approached privatisation by using strategies and methods of privatisation to circumvent some of these problems. Below, the five major models of privatisation adopted in the transition countries are discussed.

The Czech Model. Advisers from the European Bank for Reconstruction and Development (EBRD) preferred to see privatisation in this country on a case-by-case basis as was practiced in many privatisations in Western Europe. They recognised that the process would be slow but effective since the process would focus on selling the state-owned enterprise to the best possible private investors who would bring to the enterprise not only the capital needed in restructuring but also the technical and management know-how. The political leaders in Czechoslovakia were against the EBRD advice. Represented by the Prime Minister Klaus, privatisation in Czechoslovakia was to be carried out fast and with minimum costs. For Klaus, rapid and mass privatisation would lead to faster restructuring. For him (cited in Hoekman and Pohl, 1995: 3) “It is unnecessary to design techniques and legislations with respect to the objective of selecting perfect owner. An objective like this is far beyond the capacity of post-communist governments and first (initial) owners may not be the final ones, anyway”. Though some large enterprises like Skoda car factory, Skoda electronics and many others in heavy machinery, detergents and other industries, had seen their shares sold to foreign and domestic investors and to financial institutions (the participation of workers in privatisation had been very marginal or only about 5 percent of shares in large enterprises), Czechoslovakia introduced the most innovative approach to privatisation ever seen in the history of economic restructuring: the voucher privatisation. The approach entailed the distribution, through vouchers, of shares of the state-owned enterprise to the general public.

This approach was designed by an economist named Dusan Triska (Nellis, 2002). Though there was, from the beginning, serious unanswered questions about the long-term effects of this approach on restructuring and the performance of the privatised enterprise (Ellerman, 2001; Pavlinek, 2002), the Czechoslovakian government as well as many other governments in transition countries had implemented this approach. During this time, there were some convincing arguments for the adoption of the vouchers distribution to the general public such as:

- Because the *nomenklatura* - the communist *élite* composed of senior managers of state-owned enterprises, high level army officers, the communist party officials and high level state bureaucrats - had easy access to financial funds to purchase the public enterprises, there was fear that if this *élite* became the new owners of the public property, their ownership would undermine the transition reforms (Estrin, 1993). The only way to stop the *nomenklatura* taking the largest slice of the privatised state property was to rapidly distribute the shares of the state-owned enterprises to the general public;

- Though the stock markets were installed in most transition countries, it was perceived that it would take a long time before these markets would start to function properly. There was a fear that floating the shares of the state-owned enterprises in these markets would be ineffective;

- The distribution of shares would sidestep the difficult, costly and time consuming process in the valuation of state enterprises which investors, especially foreigners, often required to see whether the state-owned enterprise put for sale was economically and financially healthy;

- There was a fear amongst the reformists, or what Ellerman (2001) called the 'Post-revolutionaries', that moving slowly in the privatisation process would give enough time to workers in the state-owned enterprises and their supporters in the government administration and in the parliament to block privatisation and eventually reverse the transition to the free market economic system. Giving a stake in the state-owned enterprise to workers and the general public was perceived to provide legitimacy to the reforms and give strong support to the reformists. The reformists strongly believed that their victory in the political elections would not be complete unless the state properties were totally and rapidly transferred to the hands of the private sector. On this point, Ellerman (2001: 7) argued that "Voucher privatisation…was a brilliant political strategy for the post-revolutionaries to reverse the decentralising reforms of the past and to pull power back to their new and clean state".

Based on these arguments, the process of privatisation in Czechoslovakia was indeed fast and with little costs. As early as 1992, the government launched a programme for the distribution of vouchers to all citizens above the age of 18 to purchase the shares of some 3,000 state-owned enterprises (Dana, 2000). Each citizen was entitled to purchase a book of 1,000 voucher points for a fee of Krs 1,000 which was an equivalent of a one week worker's income (Hanousek and Kocĕnda, 2003: 283). Before the shares of the state-owned enterprise were put for distribution, the enterprise had to be first converted into a joint stock company. The managers and the employees of the stock company as well as other interested investors were required to prepare the privatisation plan for the company. The plan had to include a relevant financial and market analysis of the company and its future financial development (Simoneti, 1993). One of the most important parts in the plan was to provide propositions of whether the whole company or only part of it should be privatised and by what method(s). The elaborator of the privatisation plan could choose amongst the following methods (Hanousek and Kot'nda, 2003):

- Transfer of assets to employees;
- Direct sale to domestic and foreign investors;
- Public auction;
- Public offering of shares in the stock market;
- Voucher distribution.

Since voucher distribution was a priority in the government privatisation policy, there was a strong pressure from the government administration on the managers of the joint stock companies to include in their privatisation programmes the voucher privatisation method. And it seemed that, Pavlinek (2002: 1129) explained, “A privatisation project which did not offer any shares for vouchers had little chance of being approved by the Ministry of Privatisation”. Of the 2,400 enterprises listed for privatisation in 1991, nearly 1,000 included the voucher distribution method. The number of shares to be distributed through vouchers was negotiated between the Ministry of Privatisation, the enterprise Founding Ministry, the Centre for Voucher Privatisation and the enterprise management.

From the start, however, the designers of the voucher distribution were aware that this distribution would create a dispersed share ownership in the privatised enterprise and in the absence of a well functioning stock market and an effective enforcement of the bankruptcy law, monitoring of managers in the privatised enterprise would be difficult. It was feared that the lack of monitoring would create a fertile ground for asset stripping by managers and their close allies in the government administration. As a result, the designers of voucher privatisation had introduced the Investment Privatisation Funds (IPFs). These Funds were supposed to act as intermediate capital market institutions standing between the general public as shareholders and the management of the privatised enterprises. Some 264 Funds were created. Through a massive campaign, the citizens were called to deposit their voucher points in the IPFs to manage their shares. About 56 percent of the voucher points ended up controlled by 13 largest Funds, controlling as a result some 57 percent of shares in some 473 privatised enterprises (Pavlinek, 2002). By the end of 1994, privatisation was almost complete in the Czech

Republic. More than 80 percent of the state property was transferred to private hands (Stephen and Backhaus, 2003: 431). The Czechoslovakian approach to privatisation and to the whole transition to the free market system was praised for being rapid and without negative macroeconomic consequences. Inflation as well as unemployment were low and export especially to the European Union markets increased. But since 1995, these encouraging macroeconomic indicators had been reversed. The GDP growth in the Czech Republic had been in steady decline and unemployment in steady increase leading to an increase in the discontentment of the Czech population (Dana, 2000) and some economists (Coffee, 1999; Nellis, 2002) to the way the transition was handled in this country. The whole blame was put on the voucher privatisation itself. In the absence of sufficiently regulated Investment Funds, the majority of the Funds ended up controlled by major domestic banks and insurance institutions where the government already retained a controlling or a majority stake (Perotti, 1994) and by managers of the privatised enterprises (Stephen and Backhaus, 2003). For Nellis (2002: 25), because the IPFs were not sufficiently regulated, “This opened the door to a variety of highly dubious and some overtly illegal actions…to expropriation of firm assets by Investment Funds and firm managers. The expropriation and inefficiencies in the capital and financial markets retarded needed restructuring in the privatised firms, leaving them overstaffed, undercapitalised, unable to raise investment funds and poorly managed”.

The Russian Model. Voucher distribution scheme was also followed in Russia but managers and workers were the benefiaries from the scheme. Early in 1993, the Russian government launched the first wave of privatisation by selling, through vouchers, the assets of the state-owned enterprises to the general public. Around 29,000 enterprises were listed for privatisation. By the mid 1994, more than 19,000 enterprises were sold benefiting some 40 million citizens (McCarthy *et al.,* 2000). A second wave of privatisation started in the second half of 1994 but this time the assets had to be sold for money to the highest bidder in open auctions. In the voucher privatisation, however, privileged terms and conditions were granted to managers and workers of the state-owned enterprise slated for privatisation. Managers and workers were allowed to purchase the shares of the state-owned enterprise through three options (Filatotchev *et al.,* 1995: 79):

- Workers could obtain 25 percent of shares of the enterprise free of charge and the next 10 percent with a 30 percent discount. The 10 percent of shares could be paid for by instalments over a period of three years. Managers could buy a 5 percent of shares at their face value;

- Workers and managers could buy a 51 percent of the shares of the enterprise at their face value;

- All workers of the enterprise could buy 20 percent of the shares of the enterprise with a 30 percent discount. Payment would be done by instalments over a period of three years. And if a group of workers promised to maintain the volume of outputs after privatisation, this group was allowed to buy for cash on the top of the 20 percent another 20 percent of the shares of the enterprise at their face value.

More than 80 percent of the enterprises listed for privatisation chose option two. Consequently, more than 15,000 enterprises ended up in the hands of managers from the communist period and their workers.

Managers had also increased their share ownership of state-owned enterprises following the 'loans-for-shares' scheme. Under this scheme, the shares which the government detained in the most attractive privatised enterprises were handed over to a handful of large banks which enjoyed a particularly close relationship with the president of the country and his entourage. The shares were handed over in return for bank loans which the government desperately needed to pay the arrears in salaries and other benefits to some 10 percent of the Russian workforce (Kuznetsova and Kuznetsov, 1999). Since the government was in heavy budget deficits, it was unable to repay its loans and therefore the shares were sold to the banks at ridiculously lower prices. As many of the newly created commercial banks were owned by their former clients the state-owned enterprises, this meant an increase in the ownership of the privatised state-owned enterprises by managers from the communist era. Kuznetsova and Kuznetsov (1999) warned against the aggregation of control in the hands of managers. They felt that this aggregation would endanger the success of the transition. By the end of 1994, however, about two-third of the shares of the privatised enterprises in Russia were controlled by managers and their workers (Blasi *et al.*, 1994).

The Hungarian Model. Unlike the Czech Republic and Russia, Hungary did not proceed in mass privatisation through vouchers. The government opted for a case-by-case privatisation and consequently the state assets were transferred to private investors through various methods such as restitution, assets transferred to managers and workers on preferential sale price, public offering of shares, sales by auction and direct sales to strategic investors.

The privatisation in Hungary proceeded fast. Some 50 percent of the state properties were slated for sale in a short period of four years (1990-1994). Under the supervision of the State Property Agency (SPA), the state-owned enterprises were transformed into joint stock companies - some were already transformed following the enterprise reforms of 1988 - and in collaboration with international consultants, the managers of these companies prepared proposals of what should be privatised and how it should be privatised. They could choose by either issuing shares for public offering in the stock market, closing down unproductive assets, transferring the assets to the local municipalities, liquidating the whole or part of the company, and selling the whole or part of the company to domestic or to foreign investors. To reduce the opposition of the workers, the privatisation law had also provided workers of the enterprise put for privatisation to purchase under favourable terms a 10 percent of the value of their enterprise. Out of a total of 1,858 listed for privatisation, 1,188 enterprises or 68 percent were fully transferred to private investors and 700 were liquidated. Direct sales to strategic investors and the floatation of shares in the stock exchange were the main methods of privatisation. The main outcomes sought by using these two methods was to increase the government revenues drawn from privatisation in order to reduce the budget deficit, to bring fresh capital to the privatised enterprise which was desperately needed for its restructuring and survival, and to create a concentrated ownership in the hand of one or few investors which was perceived as the best incentive that would monitor the behaviour of managers and align their interests with the interests of the shareholders.

By 1997, almost 80 percent of Hungary's GDP was produced by the private sector. Almost 40 percent of the country's assets were in the hands of domestic investors and almost the same proportion in the hands of foreign investors (Voszka, 1999). One has to note that unlike other transition countries, Hungary was able to attract foreign investment for various reasons. It is a country which has close borders with Western Europe particularly Austria, it had a long history of dealing with Western markets, was politically stable, had a stable macroeconomic environment and had introduced a legal system as early as 1991 to protect private property rights and provided many investment incentives to foreign investors such as profit despatch outside Hungary and reduced taxation. After less than ten years since privatisation was introduced in Hungary, the size of the state sector had dramatically been reduced to almost 10 percent in 1999 (Voszka, 1999) and the market became, through the increasing mergers between firms, concentrated in the hands of few private monopolies operating at national and regional levels.

The East German Model. Privatisation in East Germany was a unique experience in the transition countries. It was quick (1990-1994) and, significantly, effective. Its speed and effectiveness were possible because the reunification with West Germany in 1989 provided East Germany with the needed legal, financial and human resources required in privatisation (Leysen, 1991; Manfred, 1991; Dyck *et al.*, 1999). Following the reunification, the West German free market legislations were established with high speed in East Germany and the West German companies were expected to play a decisive role in the privatisation process.

The main objective of privatisation was not to create a popular capitalism as was the case in Czechoslovakia or Russia, but to sell the state-owned enterprises to investors who could guarantee their long-term development. The search for these investors was entrusted to a government agency called *Treuhandanstalt* or in short the THA. The THA was created by the East German government and after the reunification it was put under the West German control. All the East German state property was put under the control of the THA which included some 8,000 state-owned enterprises with 44,000 production units and employing nearly 7 million workers (Leysen, 1991), in addition to lands, forests, properties that belonged to the police, the army, and the government institutions. The large portfolio of the THA made it the largest industrial holding company in the world.

The THA was a joint stock company wholly owned by the government but with the rights to sue and be sued and to borrow freely from the capital markets. It was governed by two bodies: the Supervisory Board and the Management Board. The Supervisory Board was composed from representatives of different ministries, the trade union and some businessmen. As for the Management Board, it was composed in its majority of managers from West German companies (Carlin, 1994: 138). To make privatisation easier and quicker, the THA was divided into regional and provincial departments where the majority of the 3,000 of its staff were West Germans. The main task of this staff was to look for potential buyers for the state-owned enterprises for sale. To make the sale attractive, the Kombinats were broken down into medium and small enterprises. Some enterprises were closed downs because they were unviable, some were returned to the local government authorities or to their original owners and those with the future potential were financially restructured. Some DM 30 billion was spent by the THA in their restructuring. To avoid joint ownership of government and private investors, the privatised enterprise was sold wholly to private investors who were selected for their knowledge with the activities of the enterprise and enjoyed sound financial and managerial resources. Consequently, nearly 74 percent of the enterprises were bought by West Germans, 20 percent by East Germans especially managers and workers and only 5.9 percent by foreigners (Dyck *et al.,* 1999: 4). The buyers were allowed to buy the enterprise but the lands and buildings attached to the enterprise were leased out on a long-term contract. Also, the new owners had to promise in the sale contract to keep the activity of the enterprise, to make capital investment, and to protect jobs or create new ones. In return for this promise, the THA had to assume all the liabilities of the state-owned enterprise put for sale, to provide a favourable sale price of the enterprise and a number of tax concessions to the interested buyer. In the event that the new owner of the privatised enterprise failed to keep up with the promise, the new owner had to make compensatory payments. A survey on the performance of the privatised manufacturing enterprises in East Germany was carried out by Eickelpasch *et al.,* (1998). The authors found that the growth of the privatised manufacturing enterprises had been since 1993 in steady growth especially for those enterprises serving the East German markets. Compared to their counterparts the West Germans, on average, the productivity of the East German enterprises remained lower than the West German. The same could be said with export. The authors concluded that on the whole "Productivity has expanded at high rates and unit labour costs have been drastically reduced…The integration of the East German manufacturing into an open economy is still a long way to go".

The Polish Model. Poland is considered the country which was the slowest in its progress to privatisation but at the same time it was the country which has been doing so far, with the exception of East Germany, better than the rest of the transition countries in term of economic growth (Nellis, 2002). However, at the beginning of the transition in 1990, Western economic advisers to the Polish government like Lipton and Sachs (Lipton and Sachs, 1990) recommended that privatisation should be fast. The state-owned enterprise should be transformed into a joint stock company with the state treasury as its unique owner. The shares of the company should be distributed with different methods. Some shares should be distributed for free or at a nominal price to workers, some should be distributed for free to financial intermediaries, and some should be kept by the government. The government should not keep these shares for ever but it should sell them off as a block to core investors. The recommendation of Lipton and Sachs was stimulated as it seems from their fear that if privatisation did not proceed fast, workers, through their Workers Councils and their allies in the parliament, would block privatisation and the whole process of transition. Their fear proved right as workers were against any form of privatisation and this created a lot of political and social tensions. In the parliament, politicians could not agree on what method of privatisation they should introduce that would be welcomed by workers and other parties in society. After too many debates in parliament, the government was able to create a programme where some 4,480 enterprises of different sizes were listed to be privatised through different methods, including public offerings of shares, direct sales to strategic investors, transfer to employees, distribution of vouchers to the public and liquidation (Blaszczyk, 1999).

What makes Poland different from many transition countries in its strategy of privatisation is the way voucher privatisation was carried out. Voucher privatisation in Poland differed from that used in the Czech Republic in terms of quantity and quality. Only a limited number of enterprises, about 512, or 11 percent of all state-owned enterprises listed for privatisation were sold through voucher (Woodruff, 2004) and only 15 Investment Funds were created to manage the shares bought by vouchers. In addition, the Funds in the Czech Republic were founded by public, private companies and individuals, but in Poland, all the 15 Funds were owned by the state treasury. Rather than distributing the shares to the general public, the shares of the 512 state enterprises (these were converted into joint stock companies to allow the distribution of shares) were distributed amongst three owners: the Funds, the state treasury and the employees. In each enterprise, the Funds owned 60 percent, the state treasury 25 percent and the employees owned for free the remaining 15 percent. The sixty percent share ownership was divided between a 'lead fund' which received a 33 percent of the shares and the remaining 27 percent were divided between the remaining 14 Funds or 1.93 percent of shares for each Fund (Hashi, 1999; Dockery, 2000). As suggested by Lipton and Sachs (1990), the government did not keep the shares for ever but sold many of them to strategic investors or transferred them to the pension funds. What is important to mention here is that the general public was allowed to take part in the ownership of the state-owned enterprises only when their shares were sold in the stock market. Before this would happen, the Investment Funds were required to restructure the companies in their portfolios and make them efficient. Once these companies were financially sound, their shares should be floated in the stock market where the general public would buy the shares in exchange for 'Universal Share Certificates'. Every Polish citizen aged eighteen and over was allowed to collect one 'Universal Share Certificate' for a fee of PLN20 (US$8). This certificate entitled its owner to own one share in each Fund (Hashi, 1999). Many Fund companies, following improvement in their efficiencies, started to sell their shares since 1997 where foreign investors were able to acquire block ownership in many of them.

In addition to share distribution, liquidation was another method of privatisation which seems to have worked well in Poland. It was a method designed by the Poles without the intervention of Western economic experts (Ellerman, 2001). The decision to liquidate the state-owned enterprise was made by the state treasury own initiative or on the request of the Workers Councils of the enterprise. Often when the enterprise was a loss-making, the initiative came from the treasury, and when the enterprise was profitable, the managers and workers of the enterprise requested its liquidation. The liquidated assets were either sold to private investors or leased out to managers and workers. The sale took place through tender, sale offer published in the national press or direct negotiation between the treasury and the purchaser. As far as leasing is concerned, managers and workers were required to create their own companies which would lease the equities of their liquidated enterprises. The leasing contracts were signed between the founders of these companies and the treasury. The contract provision stipulated that upon repayment of all the capital instalments and leasing fees, only then the liquidated enterprise would become the property of the manager and employee companies. More than a thousand, or 1,021, of small, medium and some large state-owned enterprises were liquidated for the benefit of managers and workers (Blaszczyk, 1999). Though the state sector has shrank considerably in Poland, some 500 large enterprises were by the year 2000 still in the hands of the government producing in 1999 around 25 percent of the country's GDP.

Clearly, transition countries had proceeded differently when the privatisation of medium and particularly large state-owned enterprises was concerned. The different methods used in privatisation had inevitably created different types of owners of the privatised state-owned enterprise and this had indeed influenced the governance structure of the enterprise, a structure which had implicitly and explicitly an impact on the enterprise restructuring behaviour and its financial and operational performance as the next sections will clearly explain.

3.3. The Impact of Different Owners on Restructuring

Enterprise restructuring is believed to take place when the owners exercise an effective control over the behaviour of managers. The degree of control over managers is determined by whether the shares are owned by enterprise managers/workers (insiders) or by domestic and foreign investors (outsiders) and by whether share ownership is concentrated or dispersed. A long time ago, however, Berle and Means (1933) contended that when the ownership in the private firm was dispersed (the shares were owned by too many investors), this yielded significant control in the hands of managers whose interests did not coincide with the interests of the shareholders. Later, researchers carried out studies to understand whether managers should own a high proportion of shares in their firms or a minority shares as an incentive to align the interests of managers with those of the shareholders. Holstrom (1976) and Shavell (1979) suggested that managers should be given a high proportion of ownership of shares in their firms to incite them to make decisions that were close to the shareholder interest which was the maximisation of firm's profit. Their suggestion was against what Jensen and Meckling (1976) believed. Jensen and Meckling believed that the concentration of ownership in the hands of managers was very costly. These managers would pursue projects that shape their firms according to their own preferences. These preferences might entail excessive growth, diversification, expansion of the production lines and expenditures on perquisites which could be enormously expensive to the shareholders. Another reason for avoiding the concentration of ownership in the hands of managers was the management entrenchment. With ownership concentration, managers would become both owners and controllers of their firms a fact which would make it difficult to fire managers who would not perform well. This was one of the fundamental reasons for not allowing managers in the big private corporation in the advanced economies to own 100 percent ownership in their corporations.

In the context of transition countries, an important part in the design of the privatisation strategies in many transition countries was the transfer of state ownership to insiders. Blanchard and Aghion (1996) warned against managers owning more than half of the shares of the privatised enterprise because the concentration of shares in their hands would make it impossible for outside investors to acquire control of the privatised enterprise. Ownership by outsiders, especially foreigners, was assumed to be necessary because they had the capital and the know-how as these were the main resources needed in the restructuring process. Russia as already mentioned had taken the lead in privatisation for the benefits of managers and workers. In their survey of 127 privatised enterprises in Russia, Blasi *et al.,* (1994) reported that 90 percent of the enterprises had majority employee ownership and managers had an average of 8.6 percent of all employee share ownership. One important point to mention here is that when the Russian government designed the voucher programme, it was hoped that the dominance of managers/workers in the privatised enterprise would be temporary and should be reversed for the benefits of outsiders. Since vouchers were tradable (Giles and Baxton, 1996; Volgin and Milner, 1996), politicians expected that workers would be tempted to sell their vouchers for cash to outsiders and consequently the sale would introduce block investors in the privatised enterprise who would bring a better monitoring of managers and force them to carry out effective restructuring or be fired. What really happened, managers made sure not to lose their control over the privatised state-owned enterprise (Blasi *et al.,* 1994). They put pressure on workers not to sell to outsiders but to them. Most workers were also reluctant to sell to outsiders based on what Nellis (1999) described "The better the devil we know - that is the existing managers - than some cost-cutting and perhaps job slashing outsider".

Even when workers owned the majority of shares in the enterprise, the Russian experience shows that managers prevented workers to exercise their rights in the decisions of the Board of Directors. Based on the UK/US model of internal control, the Board of Directors in Russian privatised state-owned enterprises was supposed to monitor the behaviour of managers. Represented in the Board of Directors, the workers were supposed to decide on the objectives of the firm, its long-term strategy, the appointment of senior executives and external auditors, and the compensation and performance evaluation of senior executives. But this was not the case. Their votes in the shareholder meetings were controlled by managers and they were in many enterprises implicitly threatened by managers to be sacked if they went against their decisions (Blasi *et al.,* 1994; Earle and Estrin, 1996; Shleifer and Vasiliv, 1996; Nellis, 1999; Sprenger, 2002). The explanation that can be given for why workers did not actively participate in the decision-making process is that under share distribution, workers purchased the shares either free or at discounted prices and this as it seems gave them low incentives to exercise their control over managers. Since they did not invest a high price to buy the shares, this was enough not to stimulate them to put pressure on the managers to restructure the enterprise in order to increase the efficiency of the enterprise so that the returns for their shares would increase. Also, in an environment where unemployment especially in the early years of transition increased at a staggering rate, a worker would be foolish to challenge the decisions of his/her manager in the shareholder meetings fear from being sacked. Researchers like Estrin and Wright (1999) and Boardman (1999) found in the concentration of ownership in the hands of managers/workers as one of the obstacles standing against effective restructuring in the Russian privatised enterprise. According to Boardman, ownership by insiders had led to fraud and corruption, to wage manipulation and to the inability of the enterprise to attract investment.

Unlike in Russia, in the early years of transition, the voucher distribution in the Czech Republic was praised for being an instrument which was responsible for the country's economic growth. This distribution created Investment Funds which, according to Claessens *et al.,* (1997), had exercised an effective monitoring over enterprise managers and forced them to improve the performance of their enterprises. The Investment Funds were primarily created to circumvent the corporate governance problem that faced the Czech Republic and all other transition countries. The absence of properly functioning stock market, take over, bankruptcy, and a legal system to protect minority shareholders, the bank and financial institutions-sponsored Investment Funds were created and this in imitation to the German model of corporate governance structure where banks, through their strong representation in the Supervisory Boards of the corporations, actively monitor the behaviour of managers.

Like in Germany, both the Investment Funds and their portfolio companies were governed by a two-tier governance structure: a Supervisory Board and a Management Board. The Supervisory Board was responsible for overseeing and monitoring the actions of the Management Board and the Management Board was responsible for the day-to-day operations of the enterprise. The Supervisory Board of the Investment Fund was supposed to be active player in monitoring the behaviour of the manager and aligning his/her interests with the interests of the shareholders, which was to restructure and make the enterprise profitable (Coffee, 1999; Stephen and Backhaus, 2003). Though some enterprises in the Fund portfolios restructured and improved their financial performances, the Country Study report published by the World Bank in 1999, concluded that the governance and performance of many enterprises in the Czech Funds were until 1999 still poor. This was related to the fact that the Funds lacked the professional knowledge about the activities of enterprises in their portfolios as these enterprises operated in different industries and this resulted in poor monitoring of managers. More significant, it was related to the fact that the Funds were predominantly owned by banks and financial institutions which were still either wholly or majority owned by the government. Out of the 14 major Funds, 8 were owned by banks and financial institutions where the government owned more than 40 percent of their shares (Stephen and Backhaus, 2003: 434). With the presence of the government in the Funds, many enterprises benefited from government subsidies which resulted in low manager's willingness to undertake effective restructuring. More important, it is widely reported in the literature on the Czech Investment Funds (Dobrinsky, 1996; Coffee, 1999; Stiglitz, 1999; Nellis, 2002) that the Funds were a fertile ground for fraud and corruption where enterprise managers and their allies in the government administration had stripped the best enterprise assets for their personal gains.

Perhaps the only exception, as revealed in the literature on Investment Funds in transition countries, for this scenario of the Funds weakness to monitor managers and corruption was that experienced in the Polish Investment Funds. The majority of enterprises in the portfolios of these Funds were able to introduce restructuring and increase their efficiency because they were basically managed by foreign managers. These Investment Funds were managed by management companies which were predominantly composed of foreign experts mainly from the banking and financial sector. They were hired for a period of ten years. To ensure that the managers of these companies would act in the best interests of the Fund enterprises, their managers were remunerated around 3.5 to 4.5 percent of the value of assets they managed. They were initially paid a fixed management fee of approximately 2 to 3 percent of the value of assets and bonuses linked to the financial performance of the enterprises they managed. To actively manage the Fund enterprises, these management companies appointed their representatives in the Supervisory Boards of the enterprises they managed and replaced a number of their ex-communist managers (Hashi, 1999; Kruczalak and Kruczalak, 2003). They had also introduced many changes in the operations of these enterprises, turning many of them profitable. What is important to mention is that their tight monitoring over the managers had considerably reduced the opportunities of asset stripping by managers.

In addition, effective monitoring of managers was associated with the privatised enterprise majority owned by outsiders, particularly foreign investors (Carlin *et al.,* 1995; Brada and Singh, 1999; Frydman *et al.,* 1999; Djankov, 1999, Hanousek *et al.,* 2007). In their revision of case studies on restructuring and corporate governance in Central and Eastern transition countries, Brada and Singh (1999), for example, concluded that privatised enterprises owned by foreign investors exercised tight control over managers and pushed them to restructure because these investors were skilled at evaluating managers and had no sentimental ties that sustained their loyalty to ineffective management teams. These owners, Carlin *et al.*, (1995) argued, made sure to place people they could trust to represent them in the boards of the companies they acquired. These were nominated either from inside or outside the companies. In fact, in some cases, the foreign owners had to import their representatives from the boards of directors in their parent companies in their country of origin. The tight control over managers together with the foreign owners's capital had encouraged comprehensive restructuring and consequently the improvement in the financial performance of the acquired enterprises.

3.4. Managers' Stakes in the Privatised State-Owned Enterprises and their Career Concerns

Economists were puzzled to see that a country like Poland where privatisation was very slow and foreign direct investments was low recovered quickly as early as 1992. State-owned enterprises in this country responded quickly to the threat of competition in the early years of transition (Pinto *et al.,* 1993; Estrin *et al.,* 1995). Aghion, Blanchard and Burgess (1996) provided a model in which they identified the conditions under which the state-owned enterprise was more likely to restructure before its privatisation. They assumed that managers would be unwilling to embark in restructuring if the benefits drawn from the privatisation of their enterprises were small. Since one of the main elements of enterprise restructuring was asset contraction, this according to these researchers would inevitably create strong opposition by those affected by the contraction. Where the workers had control of their enterprises through Workers Councils or powerful trade unions, the decision of managers to embark in asset contraction would be faced by worker strikes, sabotage or firing the managers. To alleviate the pressure from the opposition to restructuring, these researchers proposed that the government should design a privatisation method which should provide managers a large stake in the shares of their privatised enterprises. The shares could be voting or non-voting shares. Allowing managers to have a stake in their enterprises would encourage managers to reveal their managerial abilities.

Showing their managerial abilities would also increase the chances of managers to be hired anywhere. Roland and Sekkat (2000) provided a model in which they presented the prospect of privatisation as a mechanism which would affect the incentives of managers to restructure. If the future owners of the state enterprises slated for privatisation would hire only good managers, managers of the state enterprises would make strong efforts to restructure their enterprises to show to the enterprises future owners their managerial abilities to ensure that they would remain in their managerial positions once the new owners took over their enterprises. Their managerial abilities would also increase their chances to be recruited in the private sector where wages were higher than in the state sector. One has to point out that research on the link between restructuring and manager career concerns has been very limited.

3.5. The Budget Constraints

Under communism, the state-owned enterprise enjoyed government subsidies and bank credits without any difficulties. But with the transition to the free market economic system, many transition countries had introduced since the early years of the transition tough financial policies as a strategy to stabilise their economies. They reformed the banking system by breaking up their monobanks - the monobank acted during the socialist period as a central bank, as a commercial bank and as a saving bank - into central banks and commercial banks. The first country which embarked in these reforms was Hungary. In 1987, the monobank was broken up into a central bank and 2 commercial banks. These banks were transformed into joint stock companies with great autonomy allocated to their managers and with banking regulations hardening the provision of credits to loss-making enterprises. Similar bank reforms were introduced in Poland in 1989 and by 1995 almost all transition countries had reformed their state-owned banks (Thorne, 1993). As a measure to reduce the government-bail out to banks burdened with bad debts, many state banks were privatised. A cross ownership between domestic and foreign investors was widely found in the newly created private banks. In the majority of cases, foreign investors had majority ownership in these banks. They controlled, on average, more than 40 percent of shares in Hungarian banks, nearly 51 percent in Czech banks and 53 percent in Polish banks (Berglöf and Bolton, 2002: 85). With the restructuring of state banks and the growing number of private banks, the commercial banks were supposed to lend only to profitable enterprises and to play an active role in restructuring the financial conditions of indebted enterprises to turn them from loss-making into profitable and to liquidate those enterprises where the prospect for their future viability was impossible and their financial indebtedness was beyond repair.

In the early years of transition, most state-owned enterprises were heavily burdened by debts inherited from the socialist period but mostly accumulated during the early years of transition as enterprises were borrowing heavily to contain their losses which were a direct result from the loss of the CMEA markets, the fall in domestic demands because of competition from imports, high inflation and other economic dislocations. Long and Rutkowska (1995: 4) estimated that bad debts accumulated by the state banks in Central and Eastern countries, though with a considerable variation by country and bank, ranged between 20 and 40 percent of total bank loans. Poland was the first country which tackled the bad debts accumulated by state banks. In early 1993, the government introduced a programme called the ‘Enterprise-Bank Restructuring Programme (EBRP)’. One of the major elements in the EBRP was the Bank Conciliation Procedure. In this procedure, both the bank and the state-owned enterprise entered into negotiations to restructure the debts of the enterprise. Gray and Holle (1996) studied the application of the Bank Conciliation Procedure in 62 Polish enterprises and found that in most cases debts were either written off or the time for the debts repayment was extended and only in few enterprises the banks used the debt/equity swap and the debt settlement through the courts. Interestingly, one of the conditions for a state-owned enterprise to enter into the Conciliation Procedure was to be converted into a joint stock company and to prepare a restructuring plan. Most of the restructuring plans were, according to these authors, vague and unrealistic and their application did not increase enterprise profitability. In some enterprises, profitability became worse than before when these enterprises entered the conciliation procedure.

There are, however, a number of empirical studies which showed the effectiveness of the bank lending in Poland since the early transition which was one of the stimulus for restructuring of state-owned enterprises. In the study of 75 Polish manufacturing state-owned enterprises for the period of 1989-1991, Pinto *et al.*, (1993) found that because of the difficulties that the state-owned enterprises faced for securing loans from the banks and their few chances to be rescued by the government, managers of these enterprises engaged in restructuring. They got rid of the social assets by giving some to the local municipalities, some rented out and some sold; unbundling unproductive production lines; looking for new markets for their core products; and worked harder to collect overdue receivables. Earle and Estrin (1996) also found that because of the hard budget constraint, the enterprises in their sample engaged in employment shedding to reduce costs.

One interesting finding in the study of Gray and Holle is the fact that while enterprises in Poland became less indebted to their banks and their suppliers, overdue payable to the government authorities in the form of tax arrears and social insurance payments and to workers in the form of wage arrears increased. But one should emphasis that government and worker arrears in

Poland as well as in Hungary were negligible, even during the early years of the transition, when compared, for example, with Russia.

Studies carried out on the bank lending system and the government transfers in Russia showed that until 1996 state-owned enterprises even those loss-making were still having a privileged position when it comes to securing financial resources. In Russia, more than anywhere else in transition countries, the growth of the private commercial banking sector was rapid. By the year 1995, around 2,500 commercial banks were in operation (Fan, Lee and Schaffer, 1996). These banks were in their majority created from the spin offs of the former state banks. They were supposed to put in place an effective lending system where the economic and financial position of an enterprise must be thoroughly scrutinised before the release of a loan. In practice, the lending was dependent on the enterprise-bank relationship. State-owned enterprises even those with heavy debts found it easier to get access to loans than the best performing private firms. Lobbying was regarded as the most effective instrument to obtain state transfers by the state-owned enterprises in Russia. Though the business environment in Russia and most transition countries has improvement significantly, the surveys of the World Bank (Hellman *et al.,* 2000) and of the EBRD (Fries *et al.*, 2003) indicated that lobbying for state transfers was still widely used by state-owned enterprises in Russia and the NIS more than in Central and Eastern countries, extending as a result the survival of these enterprises and creating an unfair competitive market.

3.6. Product Market Competition

The relationship between competition and firm efficiency is well established in economics literature. Competition is regarded as a good thing, reducing monopoly power and forcing firms to be efficient and to innovate (Nickell, 1996). In the transition countries, the main ingredient of the transition was the expansion of the private sector. This expansion was perceived to stimulate competition which necessarily would lead to the national economic growth. The growth of domestic and foreign investment, though with a varying degree between countries, had grown rapidly in transition countries. Bratkowski *et al.*, (2000) surveyed the number of private firms in Central and Eastern transition countries during the early years of transition. According to their survey, the number of small and medium firms increased in the Czech Republic from 1,600 in 1990 to over 7,100 in 1994; in Poland, it increased for the same period from 36,000 to 95,000; and in Russia it reached more than 2 millions.

The expansion of the private sector was also accompanied in most transition countries by the introduction of laws that support competition. Between 1990 and 1996, 22 out of 26 transition countries had introduced competition laws (Dutz and Vagliasindi, 1999) and many had also introduced during this period the law of bankruptcy to exit non-performing firms from the market and lifted a large number of barriers on trade and the access to foreign exchange. Imports and exports in most transition countries especially in the advanced countries - Poland, Hungary, the Czech and Slovak Republics -

expanded dramatically. As early as 1994, the contribution of the private sector to the GDP of Poland, Hungary, Russia, the Czech and Slovak Republics, Latvia, Lithuania, Estonia and Albania had been over 50 percent (Estrin, 2002: 110). The trade, especially to West European markets, had increased in Poland from 32.7 percent of GDP in 1991 to 43.6 percent in 1999; Hungary from 54.9 percent to 93.8 percent and in the Czech Republic from 66.9 percent to 104.2 percent (Estrin, 2002: 116).

Though the advanced transition countries, especially Poland, have been praised for the rapid growth of the private sector, there were until recently still institutional bottlenecks which slowed down competition. Entry and exit barriers were still high and the enforcement laws to protect competitors were still poor. In a study of regulations of entry in 85 countries, Djankov *et al.,* (2001) made a comparison between transition and developed countries on the number of procedures that a person had to go through when applying for a business registration and the time it took before the business was finally registered. It took longer to open a business in transition countries than in developed ones. In the USA, for example, a person had to go through 4 procedures and it took one week to open a new business whereas in Poland a person had to go through 10 procedures and had to wait 27 days.

Russia and the NIS were described to do worse than anywhere else in transition countries in terms of business registration and law enforcement. A person wishing to open a business had to go through 16 procedures and had to wait for more than two months before the business was finally registered.

Private entrepreneurs in Russia were also discouraged to engage in business activities because of the high taxation they had to pay and the growing organised crime. According to Judith and Nedezhda (1996), Russian enterprises were required to pay some 27 different taxes. Often, the burden of taxation led many Russian enterprises even those operating in the state sector to resort to illegal practices to hide the true performance of their enterprises such as giving false accounting statements to tax collectors to avoid paying taxes or to operate in the shadow economy (Leitzal *et al.,* 1995; Gregory *et al.,* 2000).

Russia and the NIS had also been described to do worse than anywhere else in terms of law enforcement to protect competitors. In Russia, for example, despite the bankruptcy law was implemented since 1998, Sprenger (2000: 13) argued that “Extremely few enterprises have been declared bankrupt despite the widespread non-payment problems”. The failure to implement the legislations to protect the private property had been strongly related to the poor functioning of the law enforcement system. The judiciary institutions which were supposed to apply the laws in all transparency and fairness were highly influenced by politicians and influential groups. Many judges and lawyers were corrupted. The transition to the free market economic system had in fact created not only in Russia but in most transition countries a fertile ground for corruption. The report of the World Bank (2000) and the works of Dob *et al.,* (2003), Hellman *et al.,* (2000), and Gray *et al.,* (2004) provided lengthy analyses of the origin of corruption in transition countries and its effects on the economic and social structures of these countries.

Corruption was exercised by individuals and by different interest groups to bribe the officials in the various government institutions to create laws and regulations to protect their interests. For example, enterprises that had close connection with government bureaucrats, especially state-owned and privatised enterprises, were in a better position to be protected from competition creating as a result a concentrated market structure. In Russia, for example, by the end of the 1990s, around 43 percent of industrial production came from state-owned enterprises and 40 percent came from the privatised enterprises where the government held a significant share ownership (McCarthy *et al.*, 2000). Though the burden of taxation has been reduced in recent years, state-owned enterprises and enterprises with strong link with the Russian government had remained protected from competition through subsidies and tight control over private investment in the country.

3.7. Impact of Determinants on Enterprise Restructuring and Performance: Empirical Evidence

Most empirical studies tried to understand the impact of the determinants of enterprise restructuring on the enterprise restructuring and its financial and operating performance. Carlin and Landesmann (1997), Djankov and Murrell (2000) and Commander *et al.*, (2000) surveyed the empirical studies that looked into this impact. They reported that the effect of privatisation on the financial performance of the privatised enterprise was positive. The studies that looked at the relationship between privatisation and enterprise performance had compared the financial performance of enterprises owned by different types of owners. In their sample of 200 privatised and state-owned enterprises in the Czech Republic, Poland and Hungary for the period 1994, Frydman *et al.,* (1999), for example, found that when the state-owned enterprises were owned by insiders (managers and workers), their performance in terms of sale revenues, labour productivity (revenue per employee) and labour and material costs (per unit of revenues) did not differ from that of the state-owned enterprises except when it concerned employment behaviour. Insider enterprises tended to lay off fewer workers than the state-owned enterprises and enterprises privatised through other methods. Their findings also revealed that the impact of privatisation on enterprise performance was stronger in enterprises owned by outsiders (domestic and foreign investors). According to them, privatisation to an outside owner added on average nearly 10 percentage points to the annual rate of revenue growth of a firm. Moreover, in their analysis of 89 empirical studies that looked into the impact of privatisation on enterprise performance, Djankov and Murrell (2000) concluded that performance improvement after privatisation was recorded more in enterprises operating in Central and Eastern transition countries than in Russia and the NIS, though Estrin and Rosewear (1999) had, earlier, found evidence of performance improvement in the privatised Russian and NIS enterprises.

All authors (Carlin and Landesmann, 1997; Djankov and Murrell, 2000; Commander *et al.,* 2000; Megginson and Netter, 2001) who had reviewed the empirical studies that explored the impact of privatisation on enterprise performance in transition countries and in developed and developing countries had questioned the robustness of the findings of these empirical studies. They argued that the methodologies used in these studies suffered from the sample selection bias. They related the bias to the fact that in most countries, governments engaged in privatisation, especially of large-size enterprises, by selling first the best performing state-owned enterprises as a strategic policy to make privatisation 'looks good'. They also reported that the financial data of enterprises operating in transition countries used in most empirical studies were incomplete and were often manipulated by enterprise managers to give a good image about the performance of their enterprises.

While the relationship between privatisation and enterprise performance had taken a strong interest of researchers, only few researchers had explored the impact of career concerns of managers on enterprise restructuring. In their study of 75 large Polish manufacturing state-owned enterprises, Pinto *et al.,* (1993) found that one of the reasons that encouraged managers to engage in restructuring was the prospect of privatisation of their enterprises. Since managerial skills were in short supply in Poland, managers, according to Pinto and Wijinbergen (1994), were confident that their managerial abilities would secure their jobs in their enterprises after privatisation and they had no problems finding jobs elsewhere.

Beside the impact of privatisation on enterprise performance, researchers had also paid strong attention to investigate the link between management replacement and the enterprise productivity after privatisation (Claessens and Djankov, 1999; Barberis *et al.,* 1996; Fidrmuc and Fidrmuc, 2007) and enterprise restructuring under different types of owners (Belka *et al.,* 1995;

Zimplinerovă, 1995; Earle and Estrin, 1996; Djankov, 1999). In their study of 706 Czech enterprises investigated for the period 1993-1997, Claessens and Djankov (1999) found that enterprises that replaced their managers after privatisation experienced the largest profitability (0.102) and productivity increases (0.054) relative to the average changes in their respective sectors. In Contrast, enterprises which did not experience any management turnover reported larger decline in profitability (-0.043) and productivity (-0.06) than their industry peers. Their findings supported the study published earlier by Barberis *et al.,* (1996). In their survey of 452 Russian shops for the period 1992-1993, Barberis *et al.,* showed that the privatisation of Russian shops promoted restructuring when new managers were brought in to run the shops. These managers were not all share owners in the enterprises. They had money and access to loans which the old managers did not have at least in the short run. They concluded that continued control of old managers presented a problem for restructuring and that more attention should be paid to management turnover as opposed to shareholder oversight over the existing managers. In their survey of 200 private, privatised, state-owned and corporatised state-owned enterprises in Poland, Belka *et al.,* (1995) found that replacement of managers did not take place in state-owned, corporatised state-owned and enterprises owned by workers. According to them, replacement was common in enterprises owned by foreign investors. Out of 8 firms where foreigners were majority owners, 4 had 1 or 2 foreign directors in their boards of directors. Fidrmuc and Fidrmuc (2007) had also explored how frequent management replacement was in the Czech enterprises. In their survey of 917 enterprises carried out for the period 1993-1998, they found that 56.5 percent of firms replaced their managing directors at least once during the first 5-6 years since the privatisation and the chairman of the board of directors was more frequently changed than the managing director. They concluded that the changes in the managing director and the chairman of the board of directors had improved enterprise productivity but only when the management had relatively strong control over their enterprises and were closely linked with the board - i.e. the general manager being a member of the board of directors or its Chairman. They added that management replacement took place in enterprises with poor financial performance. The replacement occurred in enterprises owned by one owner holding at least a blocking stake in the enterprise (between 33 and 50 percent of equity or more) and especially when the block holder was a company or a financial institution other than a bank or a Fund. Concentrated ownership and strong executive authority in the hands of the general managers made a difference in efficiency and profitability of the privatised enterprise.

Looking at the relationship between the different forms of ownership and adjustment behaviour in 200 Polish manufacturing enterprises, Belka *et al.,* (1995) concluded that newly created private firms - *de novo* - and privatised enterprises restructured more than state-owned and corporatised state-owned enterprises. Though both the state-owned and corporatised state-owned enterprises had laid off more workers than the privatised and *de novo* firms, labour hoarding in the state-owned enterprises in particular was still endemic because of workers resistance. Because of the competition over labour skills, both the state-owned and the corporatised state-owned enterprises had difficulties recruiting skilled workers because the wages they offered were lower than those provided in the privatised and *de novo* firms. Both the *de novo* and the privatised enterprises were financially healthier, with fewer bad debts and no problem to secure credits from the banks which was not the case with the state-owned and corporatised state-owned enterprises. The type of owners was also a determinant of restructuring behaviour in the survey carried out by Zemplinerovă *et al.*, (1995) on the manufacturing enterprises in the Czech Republic for the period 1991-1993. Enterprises predominantly owned by managers, workers, foreign and domestic investors changed their production programmes more radically than enterprises owned by the government and the Funds. In terms of sales, profits, exports and investments, concentrated private enterprises performed better than other types of enterprises. Also, enterprises privatised through vouchers had restructured less than those privatised through direct sale.

Hanousek *et al.*, (2007) extended their research by looking into the effect of ownership by outsiders on the enterprise restructuring and productivity in the Czech Republic for the period 1996-1999. Contrary to the studies made in the early years of transition that showed that enterprises owned by majority domestic owners had high productivity performance, the authors found that concentrated foreign owners yielded superior performance in terms of growth of sales and profits than any other concentrated ownership reflecting the presence of strategic restructuring. Defensive restructuring, reflected in employment reduction, was found in concentrated domestic ownership - industrial companies and Investment Funds. The positive effect of concentrated foreign ownership on the enterprise restructuring and financial performance was already confirmed by the study of Carlin *et al.,* (1995) and that of Djankov (1999). Foreign owners had the capital and management know-how which were key ingredients for strategic restructuring and increased efficiency and profitability of the enterprise in transition.

Clearly, the foregoing studies indicated that the enterprises still owned by the government had engaged in defensive restructuring more than strategic restructuring and recorded poor financial performance. State-owned enterprises were viewed to do worse in restructuring and financial performance than enterprises owned by employees - managers and workers. Against the prediction made by the literature in the market economies that ownership by workers would lead to poor performance because workers would only be interested in keeping their jobs and increasing their wages which would systematically reduce the opportunities for investments, Earle and Estrin, 1996) found that ownership by workers could be a good thing for enterprise restructuring. In their survey of 200 Polish privatised, private and state-owned enterprises (corporatised and non-corporatised), they found that enterprises majority owned by workers were superior to state-owned enterprises and any other types of enterprises. They concluded (1996: 55) that "Enterprises with employee ownership have the best financial health of any of the organisations. Their profit margins are higher, their receivables are lower, they are never classified by banks as 'uncreditworthy', they are seldom refused bank credits and they have the newest capital stock. Particularly in contrast with the state firms, employee-owned firms are in remarkable good conditions". Their findings did find some support in the comprehensive analysis made by Wright *et al.,* (2002) on studies that explored the employee buy-outs in developed and transition countries. According to Wright *et al.*, in transition countries, employee buy-outs did not lead to higher wages for their inside owners. Employee buy-outs led in some Central and Eastern countries to reduction of workers more than the reduction carried out by state-owned enterprises but less than that carried out by enterprises owned by outsiders. The authors pointed out that in Russia, workers surplus was endemic because managers felt they had a social responsibility not to lay off their workers. They concluded that "In transition economies, employee ownership is so far associated with reduction in employment levels. Although the evidence is mixed, the extent of lay-offs outside Russia and Ukraine appears to be less in insider owned privatised firms than in outsider owned firms…The performance of privatisation buy-outs may be affected by access to finance".

The impact of budget constraints on enterprise performance had also been explored empirically. In the survey of Pinto *et al.,* (1993) on Polish state-owned enterprises, the managers were stimulated to restructure their enterprises because of the difficulties to secure loans from the state banks and also the sudden cuts in the government subsidies. Djankov and Murrell (2000) analysed 10 papers that explored the relationship between hard budget constraint and productivity, sale growth and labour productivity. Enterprises in Central and Eastern transition countries were more constrained by financial difficulties than those in Russia and the NIS. Easy loans from banks and informal government subsidies especially to state-owned and large former state-owned enterprises were strongly found in Russia and the NIS. In their survey of enterprises overdue payables to banks in Russia for the period of 1994, Fan *et al.*, (1996) found that between 32 and 42 percent of total bank credits were loans provided to loss-making state-owned enterprises. These loans were to cover for the losses and not for restructuring projects. In their analysis of the World Bank survey of 439 industrial Russian enterprises, Alfandri *et al.*, (1996) found that state-owned enterprises operating in defence, energy and heavy machinery industries received government subsidies in the form of budget, investment grants, credits and tax benefits on a regular basis. According to these authors, transfers were likely to be received by enterprises which exercised strong pressure on the government authorities, or which provided social services to their workers, or when the prices of their outputs were controlled (such as electricity and fuel), or when the enterprises operated in industries that the government wanted to protect from liquidation because their liquidation could create large unemployment or when the enterprises were regarded by the government as strategic.

Competition, particularly from imports, was also reported to be a stimulus to restructuring in many enterprises in Central and Eastern transition countries. Carlin *et al*., (2001) carried out a survey of 3,300 enterprises in 25 transition countries to explore the factors that influenced restructuring and firm's performance. They found that sales and productivity growth were higher in firms facing between 1 and 3 competitors in the market for their main product than firms that either faced no competition at all or that faced more than 3 competitors. Firms facing between 1 and 3 competitors reported growth between 10 percent and 13 percent higher than other firms. The authors also found that one-quarter of the firms in their sample had no pressure of competition in their domestic market for their main product. The relationship between firm performance and the pressure of competition in transition countries has also been explored by Vagliasindi (2001). In her survey of over 3,000 private, privatised and state-owned enterprises, Vagliasindi found that privatised and state-owned enterprises were better protected from competition due to implicit and explicit subsidies. Also, manufacturing industries were less opened to competition than service and trade industries. The author concluded that privatisation policies did not lead to more competition. Rather, the way the competition policy was implemented played a key role in the extent of competition. Later, Pittman (2004) investigated the implementation of anti-monopoly legislation in 11 countries in Central and Eastern Europe for the period 1996-2001. He found that there was a decrease of firms, particulary big firms, having monopoly over their market prices. But he argued (2004: 256) that "It is possible that the competition agencies had trouble recruiting and retaining qualified staff so they are unable to successfully prosecute abusive behaviour [price monopoly]...It is much more likely that some abusive behaviour is taking place in these countries without sanction".

3.8. Conclusion

From the foregoing, it was clear that a vast amount of research had been done on enterprise restructuring and its determinants in the ex-communist countries. This research showed how the different countries proceeded in the privatisation of their state-owned enterprise and how the different methods used in privatisation had influenced the internal control structure of the privatised enterprise. Enterprise restructuring had also been influenced by the macroeconomic environment and the institutional mechanisms put in place to create the free market system. Emphasis had been put, particularly, on ownership types, the hard budget constraints and competition in the product market. Enterprises privatised to outsiders, particularly foreign investors with majority ownership, were found to have restructured effectively and had better financial and operational performance. Also, privatised enterprises in Central and Eastern countries particularly Poland and Hungary performed better than those in Russia and the NIS because they were exposed to tight budget constraints since the early years of the transition and also to mechanisms that regulated competition.

However, though many developing countries had also moved from the centrally planned economic system to the free market system almost at the same time as the ex-communist countries, restructuring of their state and privatised state enterprises had hardly been touched by researchers which consequently made our understantding of enterprise restructuring limited. This research study attempted to fill this gap by investigating the restructuring behaviour and its determinants in the state enterprises slated for privatisation in Algeria. Algeria is a country which is different from the ex-communist countries in terms of its cultural values, its social structure and also in terms of its political and economic developments in pre and post transition periods. Consequently, the question that guided this research study looked like this: <u>What kind of enterprise restructuring and its determinants one would expect in the Algerian state enterprises slated for privatisation given the fact that Algeria is a country different from the ex-communist countries in its cultural and social structures as well as in its political and economic developments in pre and post transition?</u> It was expected that the answer to this question would bring to light some new insights on the topic of enterprise restructuring and its determinants in a transition context. However, before proceeding to discuss how this question was answered in terms of the research methodology used in the collection and analysis of data, it was perceived important to first discuss the political and economic context in which the Algerian state-owned enterprise evolved, particularly its place in building the national economy and its relationship with the government, during the socialist period and the political and economic reforms introduced since 1987 to move to the free market system.

Chapter 4

The Place of the State-Owned Enterprise in the Development Strategies of the Algerian Government during the Planned Economic System (1962-1986)

4.1. Introduction

The Algerian economy in general and the state enterprise in particular have been in crisis since the independence of the country in 1962 until today. This crisis has its origins going back to the economic and social structure of the country built up during the colonial rule and significantly to the inability of the Algerian government to design a strategy for economic and social development capable to use the country's resources in a rational and effective manner. However, in this chapter, a brief description was given on the negative effects of the French colonial rule on the Algerian economy and society. This was followed by a detailed discussion of the internal managerment of the state enterprise through the self-management system and later through the socialist management system. A detailed discussion was also given on the reforms introduced in the public sector before the transition to the free market system.

4.2. The Socio-Economic Problems left by the French Colonial Rule

When the French invaded Algeria in 1830, their main objective was, if possible, to eradicate the Algerian identity. The whole country infrastructure was destroyed. Houses were burnt down. Schools and mosques were destroyed and some were converted into churches or stables. The arable lands in the coastal regions were confiscated from their owners for the benefits of settlers coming from different countries in Western Europe pushing the indigenous population into the arid lands and particularly into the mountains where life was harsh and unbearable. To protect and secure the presence of France for ever in Algeria, the colonial rulers followed a strategy of '*Apartheid*' separating between the European settlers and the indigenous population. The Algerian citizen was not allowed to get access to French schools or to dissent jobs and housing. In fact the Algerian citizens did not have the same legal systems to protect their rights as those provided to the European settlers. After independence, the newly created Algerian government under the leadership of Ben Bella inherited serious economic and social problems. As an example, there was more than 2 million unemployed or a rate of unemployment of the male labour force as high as 70 percent (Lawless, 1984: 157), more than 85 percent of the population illiterate, a fast rising population growth estimated as high as 10 percent per year (*Ministère de l'Industrie Légère,* June, 1979), an economy based in its majority on agriculture, almost a total absence of technical and management skills among the Algerian population, and an acute shortage of financial funds (Clegg, 1971) following their transfer to France as a result of the departure of the colonial settlers. To tackle these problems, the government followed, under Ben Bella and particularly under Boumedienne after 1965, a strategy to exploit to a maximum the country's natural resources particularly oil, gas and iron and to increase the government control over the means of production.

4.3. The First Sign of the Government Intention to Increase its Control over the National Economy

Since independence, the government had showed many signs of its willingness to establish its control over the economy. The first sign was its reluctance to support the self-managed enterprise which was created by workers and farmers. After independence, the sudden departure of the European settlers out of Algeria left hundreds of factories, retail stores, restaurants, hotels, transportation firms and agricultural farms vacant (Dieter, 1982). Desperate for survival, factory workers and land farmers took the matter in their hands and appropriated the vacant properties to recommence production, provide employment and safeguard the national assets (Clegg, 1971: 44). Under the influence of the *Union Générale des Travailleurs Algeriens* (the National Union of the Algerian Workers), (UGTA), and some left wing groups in the single political party, the *Front de Libération Nationale* (Front of National Liberation), (FLN), these properties were managed collectively. Workers organised themselves into workers management committees in the form of self-managed enterprises. It took more than six months before the government under the leadership of Ben Bella officially recognised the self-management system. In March 1963, the government enacted a set of decrees which became known as the 'March

Decrees' recognising the self-management system as an integral part of the country economic development programmes. Clegg (1971) reckons that the government administration under Ben Bella was forced to accept the self-management system for two reasons. First, the workers who were strongly supported by the UGTA were determined to keep their control over the appropriated properties. Trying to confiscate these properties from the workers would inevitably lead to social tensions which the government was not prepared to face. Second, many members of the government administration including Ben Bella himself expected the fact that once the political chaos created by the attacks against the settlers which ravaged the country in 1961 and 1962 was settled down, foreign owners who fled the country would soon come back and take over their abandoned properties and participate in the reconstruction of the Algerian economy. Until 1963, there was no sign of their return and this forced Ben Bella and his supporters to accept the self-management system as a temporarily solution to unemployment.

When the government recognised the self-management system, it made sure not to let the whole control of the enterprise in the hands of its workers and farmers. Though the workers exercised their control through three organs which were the General Assembly, the Workers Council and the Self-Management Committee - This control structure was modelled on the Yugoslavian self-management system - the Decrees of March made sure to include the participation of the government in the management of the self-managed enterprise by nominating a general manager who should share the control of the enterprise with the president of the Self-Management Committee. The decrees clearly stated that the president of the Self-Management Committee was the one who was in charge of all the decisions of the enterprise in terms of its investment programmes and its policies for production, distribution and employment. And the presence of the general manager in the enterprise should act as an intermediate between the self-Management Committee and the government administration. The role of the general manager was supposed to focus on examining the lawfulness of all economic and financial transactions carried out in the enterprise, signing all the documents, and vetoing on all decisions unless otherwise provided by the law (Seibel and Damachi, 1982). In practice, the general manager was almost in complete control of the self-managed enterprise creating as a result confusion in the daily duties of the president of the committee and conflicts between the president and the general manager over the simple day decisions such as releasing a worker payroll or an invoice order.

The increasing control of the general manager in the self-managed enterprise was possible for two main reasons. One, was the fact that the general manager had explicit and implicit back ups from the government administration. Two, the general manager was a person who knew how to read and write which was not the case with most if not all the presidents of the committees. The majority of the presidents were elected in the self-managed enterprises because of their good track record in the war for liberation. The poor educational and technical capabilities of the presidents were an issue which was raised in many occasions by some government ministers. In one occasion, the Minister of Information and Culture (cited in Seibel and Damachi, 1982: 284) stated that "The presidents of the Management Committees have no competence whatsoever in assuming the management of the estate because they are incapable of comprehending the economic side of it. During the days of the settlers, the worker was a worker in the true sense of the term, i.e. a labour force and not an associate of production".

The coming of Boumedienne to the government office in June 1965 following a bloodless *Coup d' Etat,* put the self- management system under strong criticism. It was criticised for being corrupted, unproductive and unsuitable with the ideals of the Algerian revolution. Corruption was widespread in the elections of the members of the three organs of the self-managed enterprise. In the majority of elections, worker representatives were elected based on tribal and family ties and were fiddled by members of the FLN and the general manager and his allies. In addition, there was a widespread fraud in the payrolls and most lands and houses attached to the self-managed enterprises were appropriated by the worker representatives and the general managers. This situation increased the mistrust of workers and farmers in the workers representatives and the general managers and made them lose all interest in the elections for workers representation. Gradually, the self-management system started losing popularity amongst workers and farmers (Helie, cited in Zartman, 1973) and losing the financial support of the government.

Under Boumedienne, the ideals of the economic revolution as explained in the National Charter of 1976 were to create a strong economy based on industrialisation, the integration between the different sectors of the economy and self-reliance to make the country less dependent on capitalist countries and in particular France. Though the self-management system had temporarily lifted some of the pressure of unemployment where in agriculture, for example, the 2.3 million hectares run by the self management system produced some 75 percent of the gross agricultural production and employed some 60 percent of agricultural workers (Lazreg, cited in Seibel and Damachi, 1982: 280), the government of Boumedienne regarded the self-management system not insuitable with the ideals of its economic revolution because it lacked a clear strategy and could not be managed effectively. The system was created spontaneously by workers and farmers who were in their majority illiterate lacking any pre-determined plan for what should be the role of the self-managed enterprise in their development and the development of the national economy. Even the government of Ben Bella lacked a clear strategy on how the self-managed enterprise should participate in the building of the economy of the country. In fact the spread of the self-managed enterprise in different regions of the country was the result of a massive campaign carried out by the UGTA activists. The self-management system spread quickly particularly in the agricultural sector where more than 70 percent of the population lived in rural areas. Before the end of 1963, out of a total of 2.7 million hectares of arable lands, about 800,000 hectares were controlled by the self-management system (Griffin, 1965: 398). In the following year, between 2.3 and 2.7 million hectares, mostly in the coastal regions of the country, were managed by some 2,300 self-managed enterprises employing some 135,000 permanent and 50,000 seasonal workers (Lawless, 1984: 159). Compared to agriculture, the number of the self-managed enterprises in the manufacturing sector was relatively small. It was introduced in enterprises of small and medium size operating in light industries like textiles, food processing, leather, plastics and materials for construction which were mostly located in the three main cities: Alger, Oran and Constantine. It was not introduced in manufacturing companies with economic importance like hydrocarbons, mechanical engineering, electricity and iron and steel (Benachenhou, cited in Lawless, 1984). These were still owned and controlled by their foreign owners who were still living in Algeria. The exact figure of enterprises in the manufacturing sector that were controlled by the self-management system is not available. Benachenhou (1980, cited in Lawless, 1984) estimated that in 1964, the number of self-managed enterprises was 300 employing some 3,000 workers. Lazreg (cited in Seibel and Damachi, 1982: 88) estimated the number to be higher or around 700 self-managed enterprises were in existence in 1962. Laks (1970: 17-32), however, estimated the number to fall between 370 and 550 in 1964. In terms of the number of workers employed, these enterprises were small in size. According to Lawless (1984: 159), there was 500 self-managed enterprises employing some 15,000 workers, 421 of these enterprises employed less than 20 workers. For the remaining 79, 74 of them employed between 20 and 100 workers and only 5 employed more than 100 workers (Clausen, 1969: 67).

The ideals of the economic revolution designed by the regime of Boumedienne was to create an industrial base and this would be achieved by putting in place clear and cohesive economic and social development plans where the state-owned enterprise should play a key role. Consequently, the government started gradually withdrawing its financial support from the self-managed enterprises. In the agricultural self-managed enterprises, for example, the government financial support dropped from 803 million dinars in 1963 to 118 million in 1966 (Clegg, 1970: 85). Many self-managed enterprises in the agricultural sector were converted into cooperatives and some were distributed for the benefits of war veterans. The government withdrawal was more pronounced in the manufacturing sector. By 1973, the manufacturing self-managed enterprises represented no more than 1.7 percent of employment in the self-managed sector as a whole and less than 0.3 percent of total employment in the country (Benachenhou, cited in Lawless, 1984). Many self-managed enterprises in manufacturing were transformed into state-owned enterprises in the form of *sociétés nationales* (National Companies).

4.4. The *Société Nationale (*National Company*)* as an Instrument for the Government Strong Control

At the time of independence, there were few state-owned enterprises established by the colonial government. Between 1963 and 1965, their number grew to 37 enterprises (MIR, 1996) and it grew further after 1965 especially in key economic sectors. Two types of state-owned enterprises existed before the Socialist Management System was introduced in 1971:

Etablissements Publics à Caractère Industriel et Commercial (Public Establishments with Industrial and Commercial Characters), (EPICs) - these were public corporations - and the *Sociétés Nationales* which were joint stock companies governed by commercial private laws with the government as the only shareholder or a majority owner in the case of mixed companies (Causey, 1984).

The *sociétés nationales* had occupied since the first three years plan (1967-1969) a big importance in the government development strategies. They were intended to control and dominate fully the manufacturing and service sectors. The National Charter of 1976 considered the *sociétés nationales* as "The highest form of state ownership capable to concretise regional equilibrium and social equality". Based on these two economic and social objectives, their number grew faster particularly through the nationalisation of foreign companies. The nationalisation affected every industry (De Bernis, 1971). Between 1966 and 1970, some 700 French owned companies were nationalised (Lawless, 1984: 160). The strong wave of nationalisation culminated in 1971 by the nationalisation of oil and gas. By mid 1970, 18 *sociétés nationales* (Sari, 2002) - 2 in hydrocarbons (SONATRACH and SONALGAZ), 5 in heavy industry (SONACOME, SONAREM, SNS, SNMETAL, SONELEC) and 11 in light industry (SNSEMPAC, SOGEDIA, SNEMA, SNTA, SONITEX, SONIPEX, SNIC, SNLB, SONIC, SNAT, SNMC) - were in existence controlling some 90 percent of the manufacturing sector (Sutton, 1981: 353). The number increased further to 70 *sociétés* by the end of the 1970s and following the organisational restructuring taking place in 1982, Bouzidi (1985) estimated the number of the *sociétés* operating at national level in both manufacturing and service sectors to reach 140 and about 271 operated at regional and local levels.

With the growing increase in the hydrocarbon revenues since 1973 following the fourfold rise in the oil price, the *sociétés nationales* were progressively directed not only to create jobs, reduce the disparity between urban and rural areas, increase production but also to be an instrument for technology transfer or what is called the 'Té*chnologie de pointe* (Advanced Technology)*'*. The objective sought from the *téchnologie de pointe* would allow Algeria, Guichaoua (1979: 822) explained to have "Contact with the 'modern life' and the progress, to compensate for the shortage of skilled professionals, and to be able to compete in international markets". Consequently, the government allocated huge funds for the development of the *sociétés nationales*. More than half of the total investment funds allocated in the first (1970-73) and the second (1974-77) four years plans or 52 percent (*Republique Algerienne Democratique et Populaire*, 1970) and 62 percent (*Republique Algerienne Democratique et Populaire*, 1974) respectively were absorbed by the *sociétés nationales* operating especially in hydrocarbons and heavy industry. The development of hydrocarbons dominated by the *société nationale* SONATRACH contributed some 40 percent to the GDP and 98 percent to export and it employed before its organisational restructuring in 1982 more than 100,000 workers. As for the heavy industry, the five *sociétés nationales* - SNMETAL, SONAREM, SNS, SONACOME and SONELEC - contributed between 1970 and 1973 to an increase in manufacturing growth from 9 percent to 20 percent (Melki, cited in Sutton, 1976: 84) and employed around 100,000 workers. By the end of 1984, the state sector with all industries combined contributed to some 70 percent to the GDP and employed more than 2 million workers.

One has to note, however, that before its conversion into a socialist managed enterprise following Ordinance 71-74 dated 16 November 1971, the *société nationale* was managed almost in the same way as any private multinational company. It was large in size, highly integrated and its general manager had large discretion in decision makings like his counterpart in the private sector. The *société* inherited the French control structure. It was governed by a board of directors with the general manager as a president of the board (*Journal Officiel de la République Algerienne*, 13 April, 1965). Both the president general manager and members of the board were nominated by the sponsoring minister. While the members of the board had to be civil servants, the general manager was often selected for his technical skills. The duties and responsibilities of the president general manager were defined by decrees. Given the realities of Algeria after independence where illiteracy was at its highest level and the labour market suffered from an acute shortage for skilled managers and also given the fact that members of the board were not paid for their presence in the boards meetings, it was difficult to nominate the directors and also to have regular board meetings as many of the directors were too busy managing their own *sociétés* and trying to solve their operation problems. Consequently, the boards of directors as control bodies were gradually abolished from most *sociétés.* All the decisions - investment, personnel policies and practices, export, negotiations with the trade union representatives and the banks, and acquisition and reduction in the size of the *société* - became invested in the hands of the general manager. In some cases, the general manager was assisted by a commission called Commission of Control and Orientation in which the general manager was a member. The commission was composed of representatives of the sponsoring ministry and from the various ministries that had links with the activities of the *société* such as commerce, labour, finance and representatives of the UGTA and workers. The commission was located at the head office of the *société* but very often it was located within the sponsoring ministry department. The power of the commission was to advise but not to decide. The final decision was from the prerogatives of the general manager given the fact that he was the one who was in close touch with the activities of the *société* and knew best its problems. Often, when the general manager had a strong personality and was equipped with the political skills to influence the government administration and significantly when the activities of the *société* formed an important part in the government economic and social development programmes, the general manager exercised a strong power over the decisions of the sponsoring minister as was the case with the general managers of SONACOME and SONATRACH. In the case of SONATRACH, its general manager Ahmed Ghozali, for example, was not only in total control of the *société* but was also selected to be the Minister of Energy and Petrochemicals. This duality of functions of the general manager of SONATRACH continued to be a common practice until recently (Causey, 1984). Without doubts, the increasing power of the technocratic *élite* in the *sociétés nationales* and over the economy had found resentment from workers and was not to be tolerated for long as the government administration under Boumedienne engaged since 1970 into the centrally planned economic and social system to materialise socialism in the Algerian society. The approach to socialism was manifested by the introduction of the Socialist Managed Enterprise system.

4.5. The Government Increased its Control through the Socialist Managed Enterprise

With the exception of the self-managed enterprises and the cooperatives operating in agriculture and the mixed state-foreign commercial enterprises even if the government had the majority in shares ownership like in the case of *Air Algerie*, for example, where the government owned 82.14 percent and *Air France* 17.74 percent (Maille, 1972), all state enterprises whether operating in commercial, service or cultural activities were required to be transformed into socialist enterprises. The socialist managed enterprise, as it came in the Charter of the Organisation of the Socialist Managed Enterprise and Ordinance 71-74 dated 16 November 1971 related to the Socialist Managed Enterprise (*Recueil des Textes Fondamentaux Portant Géstion Socialiste des Entreprises,* 1976), was meant to achieve three main objectives:

- To create a homogeneous legal framework for all state enterprises which were until then subjected to various control structures making most of the state enterprises escaping the control of the government;

- To increase popular participation by increasing the direct involvement of workers in the decision making process in the enterprise with the hope to increase productivity and reduce financial wastage and significantly to give legitimacy to Boumedienne's regime;

- To tighten the government control over the enterprise to concretise the objectives set in the four years national plans, to create coordination between the different sectors of the economy and to guarantee as stated by the National Charter (1976) and the Constitution (1976) the 'Socialist Spirit'.

By these objectives, the Algerian legislators tried to give wide control to the government over the manufacturing and service sectors. In fact, in the same year when the law on the socialist managed enterprise was promulgated, the nationalisation of lands was introduced through the government programme known as the Agrarian Revolution. In this way, the government was ablt to spead its control over almost all the means of production in the country. The monopoly of the government over the industrial and agricultural sectors was supposed to act as an important instrument through which a close integration between these sectors could be established in order to create a balanced national economy. It was clearly stated in the first (1970-1973) and second (1974-1977) four years plans that the ideal of the Algerian socialist revolution was to create a strong national industrial base that would create jobs, increase the standard of living of the population and fundamentally reduce the import bills for raw material, equipments and machineries required in industrial and agricultural production. The system of the socialist managed enterprise was put in place to make this ideal a reality. And to make this system work, a radical change was introduced in the structure of the relationship between the management and the government and the relationship between the management and workers.

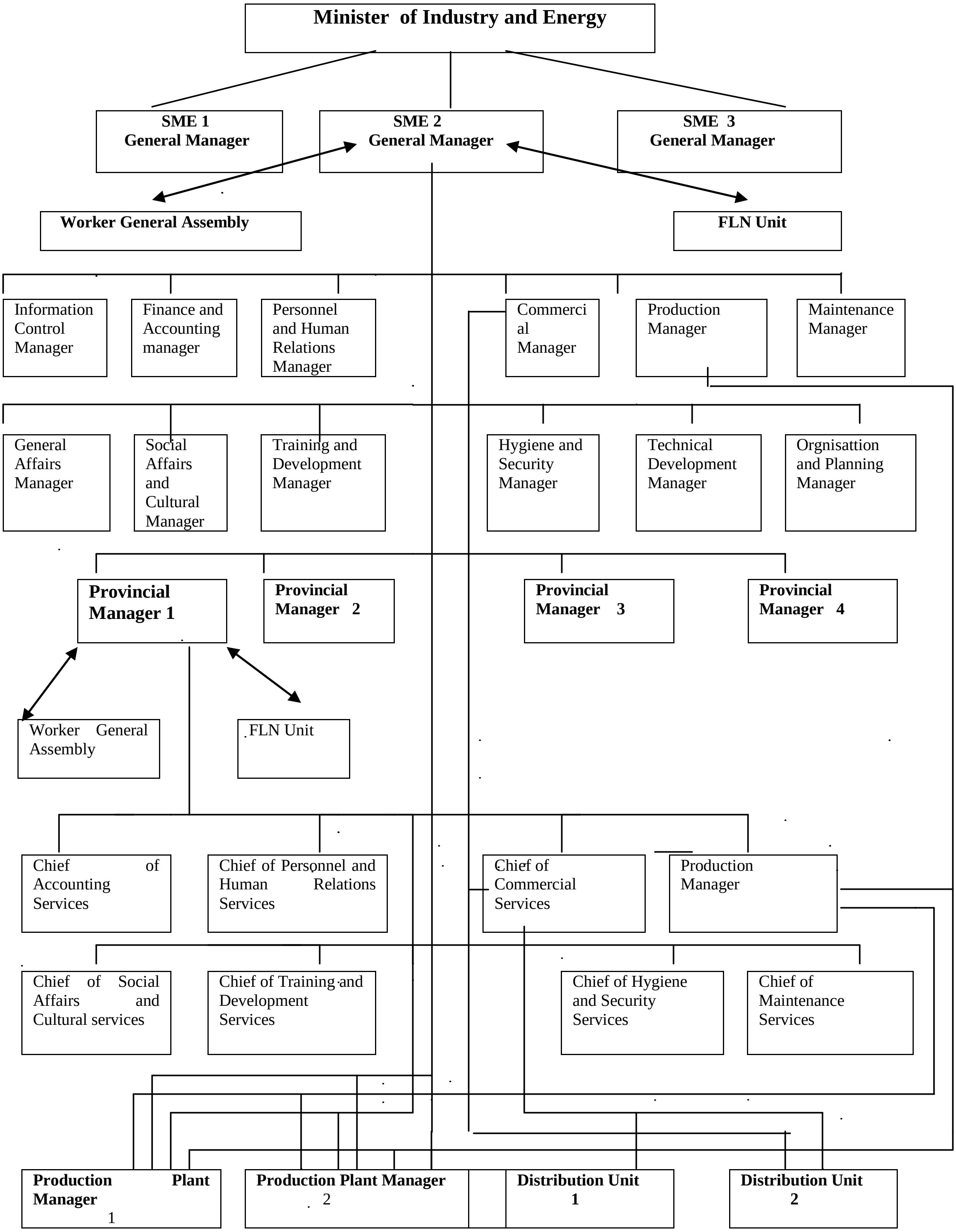
4.5.1. Management-Government Relationship under the Socialist Managed Enterprise System

Unlike before when each state-owned enterprise reported to its sponsoring ministry, the Ordinance 71-74 introduced a unique ministry - the Ministry of Industry and Energy - which was in charge of all socialist managed enterprises. In article 3 of Ordinance no. 75-76 dated 21 November 1975 (*Recueil des Textes Fondamentaux Portant Géstion Socialiste des Entreprises,* 1976), the responsibility of the unique ministry was "To make sure that the actions of the enterprises conform with the general policy [the four years plans] set by the state and with the legislations, the regulations and the directives emanating from the different state administrations". The responsibilities of the ministry as they came in article 9 of the same ordinance were to define for each socialist enterprise the policies and objectives assigned to the sector to which the enterprise belonged.

Though the socialist managed enterprise was the main instrument used to build up socialism in the Algerian society, the government did no assign any production targets as practised for example in the Soviet Union that the socialist enterprise had to fulfil. Rather, the socialist managed enterprise was required to set itself its production targets in its annual plans. These targets should be elaborated within the framework of the policies and objectives assigned for its sector. The drafting of the annual plan was a long process and sometimes it took several months before the final draft was created. The first step in the process had to start with the general manager of the enterprise mobilising a large number of the enterprise staff from the different departments, divisions, production plants and representatives of workers and the FLN to form Ad-hoc commissions at different levels of the enterprise to discuss what objectives should be set in the annual plan and what resources should be mobilised to achieve these objectives. All the drafts elaborated by the different Ad-Hoc commissions had to be submitted to the *Conseil de Diréction* (Management Board) of the enterprise for discussion and evaluation. The board then elaborated a final draft of the plan that would be submitted to the Ministry of Industry and Energy for evaluation. The Ministry of Industry and Energy would then submit a copy of the draft to the different ministries which had links with the activities of the enterprise. It was natural to see a lot of bargaining taking place between the Ministry of Industry and Energy and other ministries especially the Ministry of Finance to settle any conflicting objectives. Once all the conflicts were settled, an amended version of the draft had to be created by the Ministry of Industry and Energy which had to be submitted to the central planning organ which was the *Secretariat d'Etat au Plan* (State Secretary for Planning). This planning organ might or might not introduce further amendments to the draft. Once satisfied with the contents of the draft, the *Secretariat d'Etat* would return the draft to the Minister of Industry and Energy who in turn would submit it to the general manager of the enterprise. The annual plan would constitute the main guide for the enterprise activity for a year. Sometimes, some changes would be introduced in the plan when unpredictable conditions inside and outside the enterprise were raised. If the needed changes were minor, this would be carried out at the enterprise level in the management board. If the plan required major changes, this would not happen unless consulted with the Minister of Industry and Energy and the *Secretariat d'Etat au Plan* and the whole process of drafting, consulting and negotiating would start again to create a new version of the plan.

Because the socialist managed enterprise was considered the foundation upon which to built the ideals of the socialist revolution and the major tool to implement the national economic and social plans, the Minister of Industry and Energy was careful to select managers who were loyal to the state ideological orientations. The general manager of the enterprise was nominated by decree under the proposition of the Minister of Industry and Energy. Often, he was selected from the army or the FLN. And under the proposition of the general manager, the Minister also nominated the general manager's deputies, the managers of the divisions and managers of the production plants. Though nominated by the Minister, the division and production plant managers, as understood from their private correspondances published by the SNSEMPAC (*Fonds Documentaires de l'Entreprise SNSEMPAC*, 1975-1978 and 1979), had no autonomy to take decisions even for the simple decisions such as for example from which supplier to get spare parts and the day of the week when the vehicles they used for personal and for the transportation of the enterprise products should be washed. They were required to implement all the directives issued by the general manager. The organisational structure of the socialist managed enterprise was highly centralised and the communication between managers and subordinates was also highly formalised. A typical structure of a socialist managed enterprise would look like figure 4.1 below.

Figure 4.1. The Organisational Structure of the SME between 1975 and 1977



1. Keys: : Consultation [⟷], Order [——]

2. *Source: Data analysis.*

What was also obvious from the legislation governing the management of the socialist enterprise was the fact that the Algerian legislators had kept silent on how many deputies should be nominated and on what criteria they should be selected and remunerated. They also kept silent on the criteria by which the members of the management board of the enterprise should be selected and remunerated. The board was, as previously mentioned, managed and presided by the general manager. It was composed from 9 to 11 members and 2 of its members were selected by the Workers' General Assembly to represent the workers of the enterprise. Under Ordinance no.75-23 dated 29 April 1975 relative to the *Statut-Type* of the commercial socialist enterprise (*Recueil des Textes Portant Géstion Socialiste des Entreprises,* 1976), the management board was given the authority to elaborate itself the organisational structure of the enterprise, the policies for the recruitment and selection and reward and compensation of personnel and the policies for products marketing and distribution. The elaboration of these policies would be carried out in consultation with the Workers' General Assembly, the Minister of Industry and Energy, the Minister of Finance and the Minister of Labour and Social Affairs. It was common to see the majority of the members of the board drawn from inside the enterprise particularly from the planning, financial, commercial and production departments. These managers were the main advisers to the general manager. They were the ones upon whom the general manager heavily relied when drafting the enterprise annual plans and they were always the ones who they accompanied him when summoned by the Minister of Industry and Energy or the Minister of Finance to provide explanations on the performance of the enterprise or on any other issues related to the activities of the enterprise. A typical role played by these four major functional managers in a manufacturing enterprise, could be understood from the private correpondances compiled in the *Fonds Documentaires de l'Entreprise* published by the SNSEMPAC for the years 1975, 1976, 1977, 1978 and 1979). Their role could be briefly explained as follows:

The Manager of the Planning Department. The manager for planning was active in gathering information from other departments particularly production and commercial in order to design the broad lines of the annul plan and to keep a check over the progress of the implementation of the investment projects. He made sure that information from these departments flowed regularly to his department. At the head office of each enterprise, a department for information and document control was created to facilitate the communication of information from the divisions and the production plants to the planning department. Meetings between the manager of this department and the managers of the commercial and of the production departments located at the head office as well as the general manager of the enterprise were regular on a monthly basis to verify that the divisions and the production plants were in control of the production targets allocated to them by the head office. Any discrepancies in the monthly reports from the provincial and production managers would force the manager for planning to ask for explaining from the manager of production at the head office and sometimes also from the production managers in the production plants themselves.

The Manager of the Production Department. One of the main objectives of the socialist managed enterprise system was to increase production to satisfy the needs of the domestic market which was in constant growth with the fast rising population and therefore volume mattered a lot. Each month, managers of the production plants were required to submit a full report to the production manager at the head office on how much raw material was used in production and how much stocks were left in the warehouses. And each month, the production manager at the head office had to submit a report to the Minister of Industry and Energy on the progress of production in every production plant. Following the massive investments which the government made in the manufacturing sector in the 1970s as a result of the rising price of oil, one of the outcomes of these investments was the expansion in the size of the socialist enterprise. One enterprise could manage tens of production plants. As an example, at SONACOME, some 44 production plants were in operation employing some 27,000 workers, at SN SEMPAC the number was estimated to reach some 93 plants employing 20,400 workers and at SONELGAZ the number was 48 production plants employing some 15,000. These production plants were often dispersed in different regions of the country. Neither the production managers nor the provincial managers had autonomy to set their monthly production targets. These targets had to be elaborated by the production manager at the head office located in the capital city Algiers and sent to the production managers on a monthly basis for execution. The managers as well as the workers in the production plants made sure to achieve the objectives and production targets assigned to them by the head office because this would secure their bonuses. In all socialist enterprises, volume and productivity were the main criteria upon which the bonuses were calculated and the percentage of the bonus in relation to the basic salary of a worker differed from one enterprise to another depending on the activities in which the enterprise operated. At the SN SEMPAC, for example, the bonus of a production worker, as documented in the Fonds Documentaire de l'Entreprise for 1975-1978 and for 1979, was based on the performance of the plant in terms of productivity and volume produced each month. The amount of bonus paid for productivity did not exceed 12 percent of the basic salary. The main criteria upon which productivity was calculated were the rate of achievement of the monthly objectives assigned to the plant, the rate of reduction in production expenditures and the rate of reduction in expenditures on equipment and machinery maintenance. As for the volume of outputs produced, the amount of bonus paid did not exceed 8 percent of the basic salary. The bonus was calculated on how many kilogrammes produced by worker, the quality of the product, how much the worker followed the instructions on how to produce the product and how good his/her attendances at work were. With these bonuses, the government tried to stimulate workers to increase the volume and quality of products to reduce the problem of shortage particularly of products of high consumption and to reduce the import bills.

The Manager of the Financial Department. Being a financial manager was a highly prestigious position in the socialist enterprise but at the same time it was a position were the chances of being fired was high if the enterprise mismanaged its accounts because of his negligence. This manager made sure that the reports on the expenditures and incomes made by all the units of the enterprise had to come to his office regularly otherwise he will be in trouble with the bank and the representatives of the Minister of Finance. One of the fundamental objectives of the socialist enterprise as explained in Ordinance 71-71, in the National Charter (1976) and in the constitution (1976) was to reduce financial wastage. To achieve this objective, the government instituted tight control over the management of funds in the socialist managed enterprise and also tightened the access to different capital suppliers. Following the law of finance of 1970, each socialist enterprise was required to enter into contract for five or even ten years with only one of the existing five banks - BNA, CPA, BEA, BDL and BADR (Benissad, 1994). As an example, all socialist enterprises operating in agricultural activities had to borrow from the BADR. The logic behind this restriction was not only to make sure that both the enterprise and the bank worked towards the same objective which was that of fulfilling the development programmes included in the four years plans but also having a fixed amount of credits which the enterprise was allowed to borrow from its own bank each year, the enterprise would have no other choices but to improve its profitability. In the law of finance of 1974, it was clear that only the unproductive activities such as those related to workers welfare services would be financed by the state treasury. Productive activities had to be financed by the enterprise proper earnings and by bank credits which were repayable. Based on the evaluation of the annual plan submitted each year by the enterprise, the Minister of Finance specified how much credits the bank was allowed to lend to the enterprise and to make sure that the credits were not wasted, the financial manager was required to submit each month reports on the financial performance of the enterprise to the bank for evaluation. Failure to do so could create many troubles in the enterprise-bank relationship which could be manifested by the bank freezing further loans to the enterprise. Monthly evaluation of the financial performance of the socialist enterprise was also carried out by the representatives of the Minister of Finance. At the head office of each enterprise, the Minister of Finance appointed the *Commissaires aux Comptes* (financial auditors). The prerogatives of these *Comminssaires* were according to the law of finance of 1970 and the Decree no. 70-173 dated 16 November 1970, to control all activities which had connection with the economic and financial performance of the enterprise and to make sure that the legislations governing the economic and financial operations of the enterprise were properly implemented and to make sure that the financial reports produced by the management board were not subject to manipulations. Being located in the enterprise, the *Comminssaires* could call the financial manager at any moment to provide accounting documentation for evaluation. Any discrepancies discovered in the accounts or exaggeration in expenditures even if these expenditures concerned the travelling expenses of the general manager would lead to suspicion and often this would call the intervention of the *Inspecteur des Finances* (financial inspector) for a thorough review of the accounts (see the report of the *Ministère de l'Industrie Légère* published in November 1978 criticising the strong intervention of the Minister of Finance through the Général Inspection of Finances). Any fraud discovered in the accounts would cost the financial manager and also the general manager heavy penalties such as paying fines and even being put in prison (Latrous, 1982; Belloula, 1999).

The Manager of the Commercial Department. This manager was in charge of all commercial and distribution activities of the enterprise. Each month, he had to send a full report to the production plants on the quantities of products that they should produce and from which supplier they should purchase their inputs. Because the socialist enterprise was allowed to use domestic and foreign suppliers, many socialist enterprises used foreign suppliers not only to import raw materials and technological equipments and machineries but also the products they produced themselves. In the case of the SN SEMPAC, for example, because of the inability of the enterprise to satisfy the demands of the domestic market for flour and semolina, it was forced to import these products. Though between 1974 and 1977, the commercial managers of the socialist enterprises, operating particularly in light industries such as food manufacturing, textiles and material for building construction, were active in designing marketing plans to face the pressure from the competition of imports and the private sector, this pressure was soon lifted when the law no. 78-02 dated 11 February 1978 was promulgated. In its article 6, the socialist managed enterprise was given the monopoly over the external trade and therefore it was the only one allowed to import. The main objective of the law was to protect the national production. Only the inputs needed by the enterprise and the products not produced by the domestic producers were allowed to be imported. In practice, the law had opened the door wide for financial wastage. Some socialist enterprises became less motivated to increase production and productivity and covered their poor performance by importing the products they were supposed to produce in their production plants. Others imported the products already produced locally. After one and a half year of its implementation, it became clear that the 78-02 law was not working and was strongly criticised by the FLN (*FLN*, March, 1980).

It remains to say, however, that Ordinance 71-74 was not only a turning point in the relationship between the government and enterprise management but more significantly between workers and management. The Algerian legislators clearly understood that without the participation of workers in the management of their enterprises, workers motivation to increase production and productivity which were one of the ideals of the socialist revolution would be hard to achieve. Based on this rationality, workers had to be not only producers but also managers creating a new form of management-workers relationship.

4.5.2. Management-Workers Relationship under the Socialist Managed Enterprise System

Under the socialist management system, the general manager found him/herself squeezed by the control of workers. No decision would be taken by the general manager or other low level managers unless consulted with the workers' representatives. In Ordinance 71-74, all the duties and responsibilities of workers and the mechanisms for their participation in management were defined. A number of commissions were also put in place to facilitate the implementation of workers participation such as the *Commission Nationale de la Géstion Socialiste de l'Entreprise* (National Commission for the Management of the Socialist Enterprise),(CNSME*)*, the *Commission Nationale de l'Organisation* (National Commission for Organisation), (CNO), and the *Conseil de Coordination* (Coordination Board), (CC). Workers were required to elect their Workers' Assembly for 3 years at the enterprise and also at the production plant levels. It was compulsory that the members elected had to be members of the UGTA. The workers had to participate in the management of the enterprise and of the plant through 5 specialised commissions - financial and economic commission, social affairs and cultural commission, personnel and occupational development commission, discipline commission and security and hygiene commission - and through 1 or 2 of their members represented in the management board of the enterprise and also the management board of the plant. Through the 5 commissions, workers were allowed to participate in all aspects of the internal management of the enterprise and of the plant such as investment programmes, production targets, procurement, distribution, personnel rewards and compensation and financial expenditures. From the information provided by the 5 commissions, the Workers' Assembly had to elaborate an annual report indicating the state of affairs in the management of the enterprise and of the plant and had to make recommendations for improvement.

The socialist management system found strong popularity among workers but its implementation was not easy as it was expected. It was resisted by most general managers of the *sociétés nationales*. The first *société nationale* which implemented the system was the SNMETAL. This *société* was used as a pilot experiment. In October, 1972, 12 production plants employing more than 4,000 workers participated in the experiment (Akkache, cited in Branine, 1994). In early 1973, a seminar was held discussing the SNMETAL experiment. Though the experiment was not a total success, the system was introduced in most state enterprises in manufacturing and service sectors including banks and education establishments. By 1974, the number of enterprises that adopted the system increased to 15. Because Ordinance 71-74 related to the Socialist Managed Enterprise did not provide detailed procedures and techniques on how to implement the system, the Ordinance was exposed to misinterpretations by enterprise managers and the trade union representatives. This urged the government administration to enact in 1975 a set of labour regulations entitled '*Textes d'Application de la GSE*' or Texts for the Application of the Socialist Managed Enterprise. These texts had given some clarity on how to implement the socialist management system in different industries by providing techniques that would facilitate the implementation. Consequently, the number of enterprises and plants that adopted the system increased in one year alone, 1975, from 15 to 32. In the following year, the number jumped to 50 enterprises and plants employing some 188,523 workers. At the National Conference held in December 1975 on the socialist managed enterprise, many enterprises reported increases in their production and workers profit sharing dividends. At SONIPEC, for example, production increased by 50 percent and similar increase occurred at SN SEMPAC (Boutefnouchet, cited in Branine, 1994). The improvement was related to the tough discipline introduced by workers representatives in the work place by controlling absenteeism; by the workers willingness to participate in the management of their enterprises and their enthusiasm to work hard so that they could increase their shares in the profits; in addition to the support the general managers of these enterprises provided to workers representatives such as giving access to their representatives in the 5 commissions to any information they required and working closely with them in the elaboration of investment projects, annual plans, personnel policies and workers' welfare services. In the big *socété*s like SONACOME and SONATRACH, their general managers had strongly resisted the introduction of the socialist management system. At SONACOME, the system was introduced in 1974 but workers participation had never been materialised. Its manager opposed the idea that workers were capable of managing an enterprise as important as SONACOME. For him, the majority of the members of the 5 commissions had neither the right educational backgrounds required in management nor the technical and the management skills to decide on investment projects and the future of the enterprise (Manager, Headquarters, UGTA, 2004). The opposition of the manager to the system increased the determination of workers representatives to create instability in the enterprise and this by going on strikes. Absenteeism and strikes became almost a common thing to see at SONACOME which had tremendously affected the production of the enterprise. At SONATRACH, too, management opposition to workers participation in the management of the enterprise was even stronger. The socialist system was projected to be introduced in this enterprise in 1977. It was postponed to 1978 and finally to

1981. Because the *société* was composed of a large number of production and distributions plants which were dispersed in different regions of the country, it was difficult to design a plan to implement the system effectively. And before the system was to be implemented at SONATRACH, the government launched its first reforms to restructure the public sector.

4.6. The First Reforms of the Public Sector (1978-1986)

Two reforms were of importance during this period. These were represented by the government introducing in 1978 the *Statut Général du Travailleur* (General Status of the Worker), (SGT), which was a system that created a uniformity in the employment practices in all the commercial enterprises and the reconfiguration in 1982 of the public sector by breaking up the highly integrated state enterprises into enterprises specialised by activities to reduce the pressure on managers to manage their enterprises and to give the regional and local government authorities some responsibilities to control the economic activity in their areas.

4.6.1. The Statut Général du Travailleur (SGT)

The SGT was introduced by the promulgation of the Law no.78-12 dated 5 August 1978. The law came to make an end to the multiplicity of systems governing the employment policies in the different commercial industries which were until then using the employment practices inherited from the colonial period. In the socialist managed enterprise, the employment policies were negotiated between the management board of the enterprise headed by the general manager and the Commission for Personnel and Occupational Development and in the private sector they were negotiated between the firm's owner and the UGTA. The system of negotiation created a differentiation in the distribution of income of workers not only between public and private firms but also between enterprises within the same sector. In the socialist enterprises, for example, workers in enterprises which had priorities in the government economic strategies for development had benefited from high salaries and generous bonuses and social welfare services and more opportunities for training and development. Workers belonging to SNMETAL, SONACOME, SNS, SONATRACH and SONELGAZ were the highest paid in the country. In fact, these enterprises became the attraction of skilled and talented workers from other socialist enterprises and other sectors. With the growing gap in income distribution between workers in different socialist enterprises and between the public and private sectors together with the rising prices of goods for consumption it was natural to see a rise in conflicts between managers and poorly paid workers. In the socialist sector alone, some 2,566 conflicts were recorded in different enterprises where some 1,082 were worker strikes (Koriche, 1994: 247). Fear from the escalation of social instability in the country, the government introduced the SGT to institute a system of uniformity in the employment policies.

With the exception of the self-managed enterprise, the agricultural cooperatives of the Agrarian Revolution and the civil service which were governed by specific work relation codes, all the state and private enterprises operating in commercial activities had to introduce the SGT. The main objectives of the SGT as stated in the Law no.78-12 were to define the obligations of workers and managers and significantly to install a unique national policy over classification of work positions and worker remunerations based on the principle of 'equal work, equal salary'. Regardless to what industry the enterprise belonged, workers positions in state and private firms, their salaries and their bonuses were classified into groups as determined by legislations. The work positions in all industries were divided into classes and sub-classes which were determined in a national classification method called, the *Méthode Nationale Unique de Classification* (Unique National Method for Classification), (MNUC), promulgated by the Decree no.82. 356 dated 20 November, 1982. There were 5 classes and 13 sub-classes. Each class and sub-class was allocated a number of points as illustrated in table 4.1 below.

Table 4.1. Criteria determining the grade of a worker's position in the manufacturing and service commercial enterprise.

Criterion	Number of points
Qualification	**485 points (40.42 %)**
1. Academic background	315 points (26.25%)
2. Work experience	170 points (14.17%)
Responsibility	**260 points (21.66 %)**
1. Tasks involving the use of tools, equipments etc.	90 points (07.50%)
2. Tasks involving administrative paper work,	30 points (02.50%)
3. Tasks involving direct supervision of workers in the production process,	70 points (05.83%)
4. Tasks involving authority of command in the hierarchy	70 points (05.83%)
Effort	**174 points (14.50 %)**
1. Tasks involving physical effort	50 points (04.17%)
2. Tasks involving repetition in the production process creating monotony,	30 points (02.50%)
3. Tasks involving mental concentration	94 points (07.83%)
Work Conditions	**161 points (13.42 %)**
1. Tasks involving the worker discomfort such as noise, heat and health problems	126 points (10.50%)
2. Tasks involving risks and accidents which the worker might be exposed to such as radiation, explosion etc.	35 points (02.92%)
Constraints and particular requirements	**120 points (10.00 %)**
1. Tasks involving constraints other than those mentioned above,	60 points (05.00%)
2. Tasks involving personal quality such as creativity, ability to motivate others and skills only few peoples have.	60 points (05.00%)
Total	**1,200 points (100.00%)**

Source: *Décret No.* 82.356 *du* 20 *Novembre* 1982

This classification of work tasks was followed by the classification of the basic salaries in the different manufacturing industries. Table 4.2 illustrates the classification of the basic salary for three categories of workers.

__Table 4.2. Salary scale in Algerian dinars (DA) for the different categories of workers in the manufacturing and service commercial enterprise.__

Unskilled and semi-skilled Workers	**Workers with college and university background**	**Workers with managerial positions**
Grade 1. 1,000 Grade 2. 1,100 Grade 3. 1,300 Grade 4. 1,600	Grade 1. 2,000 Grade 2. 2,500 Grade 3. 3,000 Grade 4. 3,750	Grade 1. 5,000-5,200 Grade 2. 5,500-6,000 Grade 3. 6,250-6,450 Grade 4. 6,500-6,900 Grade 5. 7,000-7,500

__Source: Data analysis.__

From the first sight, the national classification of salaries gives the reader the impression that managers were the highest paid, but when looking at it carefully, a manual worker could earn more than the general managers working in some industries like for example in education or even in manufacturing like textiles and food processing industries. Though the MNUC gave high points to academic achievement and positions with authority, the monthly income of a manual worker or of an engineer working in hydrocarbon and heavy industries could earn much more than a university professor or a medical doctor because of the various bonuses and indemnities attached to some of their tasks such as:

- Indemnity to work shifts which could range between 5 and 25 percent of the basic salary (*Décret no. 81-14,* 31 March 1981);

- A bonus for individual performance which could reach to a maximum level of 10 percent of the basic salary;

- A bonus for collective performance which could range between 25 and 30 percent of the basic salary if the target assigned to a task was achieved above 100 percent;

- Indemnity attached to how much the task involved mental and physical nuisances like for example noise and heat (*Décret no. 81-58, 28* March, 1981);

- A bonus attached to the maintenance of equipment and machineries;

- A bonus called a bonus of Zone which was attached to the geographical location of the job and how much the job was important in the government development programmes (*Décret no.82-183,* 5 May, 1982). If one takes SONATRACH, as an example, because most of its production plants and distribution outlets were located in the different towns of the south where the environmental conditions were harsh and unbearable, to encourage mobility of workers to these locations, the bonus of Zone of a worker could reach some 70 percent of his/her basic salary.

Clearly, the SGT had benefited some categories of workers at the expense of others because at that time the strategies followed by the government was as mentioned before the industrialisation of the country and therefore workers in hydrocarbon and heavy industry were treated better. What is also important to mention here is the fact that the SGT had taken away one of the main managerial task of a general manager that of designing a compensation and reward system based on the nature of the tasks attached to the post, the financial circumstances of the enterprise and the performance of the worker. For the white collar workers with ambition to work up the ladder to managerial positions, the SGT offered them little opportunity for promotion to these positions. In the building and road construction industry (*Ministère des Travaux Publics,* 26 June, 1983) for example, the difference between the basic salary of one management position and another did not exceed 150 dinars (equivalent with today's exchange rate of US$2). The narrow gap in earnings between the different grades for professional and managerial positions also demoralised those seeking to gain more training and development since the development would not add much difference to their salaries. When the country started to get into financial troubles in 1985 and 1986 following the sharp decline in the government revenues from the oil export, the first step the government administration carried out was increasing the salaries of managers as table 4.3 shows.

Tables 4.3. The rise in the salaries of managers following the oil crisis of 1986.

a.

Year / Category	1981-1985
A	5,000-5,200 DA
B	5,500-6,000 DA
C	6,200-6,450 DA
D	6,500-6,900 DA
E	7,000-7,500 DA

b.

Year / Category	1986-1989
A	24,300-18,900 DA
B	17,865-15,750 DA
C	14,805-13,625 DA

Source: Data analysis.

Their salaries went up by more than three times their level only five years earlier. The increase was an incentive introduced to stimulate managers to create the right environment in their enterprises to increase production and productivity to reduce the shock of the oil crisis. It remains to say however that the revision brought to the salaries of managers was the first step for further changes which the employment system as a whole had to see after the abolishment of socialism in 1989.

4.6.2. The Organisational Restructuring of the Public Sector of 1982

The organisational restructuring of the public sector introduced in 1982 was evidence that the socialist managed enterprise as a system of management was not working. In the fourth congress meeting of the FLN which took place in 1979, the FLN proceeded in the evaluation of the national economic and social strategies implemented during the whole period between 1967 and 1978. Though it was recognised that the various development programmes initiated since 1967 had contributed to improvement in the economy and the standard of living of the population, the economy still suffered from under-utilisation of production capacities, low efficiency in economic growth, distortion between the different sectors of the economy and wastage of resources. The rate of the domestic demand satisfied by the domestic production rather than increasing it decreased from 48 percent in 1967 to 24 percent in 1977. Authors who analysed this period (Andreff and Hayed, 1978; Andreff, 1979; Osterkamp, 1982; Benissad, 1994) related the causes of the development failure in Algeria to:

- Bad choice of the development strategies and therefore the investment projects. Since 1967, the government based its strategy for development on the 'I*ndustries Industrialisantes* (Industrialising Industries)*',* a model developed by De Bernis. The model predicts that the concentration on the development of the heavy industry especially steel and iron would automatically generate industries that would produce machineries and equipments needed in agriculture and would also reduce the import of these machineries and equipments from the capitalist countries (Genne, 1979). But it became clear that the implementation of this model did not fit with the economic and social conditions of Algeria. The country suffered from an underdeveloped domestic market and an acute shortage of skilled labour force. The implementation of the investment projects in the majority of the state enterprises relied heavily on foreign expertise from capitalist and communist countries which was very expensive to hire;

- The excessive intervention of the government administration in the elaboration and execution of the investment projects of the state enterprises caused a long delay in the completion of most of the projects. Some had to be carried out from one national plan to the next. From the 400,000 million dinars allocated for the implementation of the first five years national plan (1980-84) (*Republique Algerienne Democratique et Populaire*, 1980), almost half of these funds had to be invested to finish projects which already started in the second four year national plan (1974-77);

- The high integration and diversification of the state enterprises turned these enterprises into conglomerates with divisions and production plants dispersed in different regions of the country a fact which made it hard for the Ministry of Industry and Energy, the central planning body and particularly the Ministry of Finance to exercise an effective control over their economic and financial management. Because of the difficulties to control their financial expenditures, most state enterprises incurred heavy debts. In manufacturing alone, the total debt of all enterprises combined was estimated to reach around 80 billion dinars (equivalent to some US$12 billion with today's exchange rate) or some 94 percent of the country's GDP.

In the hope to tighten the control over the wastage of resources to avoid further debts and to increase the production and productivity of the state enterprises, the FLN Congress recommended the contraction in the size of these enterprises by breaking them down into smaller entities. These entities became specialised by line of activities. Some entities became in charge exclusively with production, some with distribution, some with research and development and some with importation. As a result, SONATRACH, SNS, SNMETAL, for example, were broken down into 8, 14 and 4 enterprises respectively. Table 4.4 below shows the dramatic expansion in the number of enterprises of the public sector following the organisational restructuring strategy implemented after 1982.

Table 4.4. Reconfiguration of the public sector after 1982.

Type of industry	**No. of enterprises before 1982**	**No. of enterprises after 1982**
Agriculture	05	15
External trade	10	26
Culture	01	03
Petrochemicals	02	15
Finance	05	08
Building and Urbanism	06	85
Hydraulics	07	20
Light Industries	09	46
Heavy Industries	05	47
Information	01	01
Telecommunications	01	02
Health	01	05
Tourism	06	21
Transportation	07	20
Road Works	03	12
Planning and Environmental Management	01	02
Total	**70**	**328**

Source: MPAT, May 1983

However, the reconfiguration of the public sector did not add any value to the performance of the national economic growth. Rather, it had created more wastage of resources. Because of the pronounced shortage of people in the labour market with management and technical skills and the housing shortage which made workers mobility very difficult, it was hard for enterprises especially those located in remote areas to fill in the vacant positions. Often these positions were filled in by people who lacked even the technical knowledge about the activities in which their enterprises operated. As the country entered a serious economic crisis following the sharp drop in the oil price in 1986, the government carried out a full revision of its role in the economic activity and this by launching reforms to introduce the free market-oriented principles.

4.7. Conclusion

The strategies for economic and social developments followed by the regime of Boumedienne were too ambitious. The participation of workers in the management of the enterprises created conflicts between workers and the enterprise senior managers which created a slow down in production and productivity following the rising number of industrial actions in many industries. Production progress was also slow with the monopoly of the socialist enterprise over the external trade and the low incentives provided by the SGT system for competence and skill development of employees. More significant was the heavy reliance of the Algerian economy on Western technology and raw materials. These technology and materials were purchased in foreign currencies and therefore any fluctuation in the price of oil and gas would have significant consequences on the national economic growth in general and the manufacturing sector in particular.

Chapter 5

The Transition of Algeria to the Free Market System

5.1. Introduction

As already mentioned, the development programmes initiated in the 1960s were tightly linked with the revenues drawn from the export of hydrocarbons. Any fluctuation in their prices would negatively or positively affect the national economic and social growth. Therefore, the heavy drop in their prices in the mid 1980s affected every aspect of the Algerian society and this could be considered as a turning point in the history of Algeria since independence in terms of its political, economic and social orientations. In this chapter, a brief discussion was first given on the economic and social situations in the late 1980s prior to the reforms initiated by the government to move to the free market system. This was followed by a discussion of the reforms introduced in the socialist enterprise while still operating within the socialist system. Then a detailed discussion was given on the free market reforms. Four aspects of these reforms were discussed. These were the democratisation of the political system, the reforms of the banking and the private sectors and the privatisation of the state enterprise.

5.2. The Economic and Social Degration in the late 1980s

Since independence, the export of hydrocarbons had been in steady increase reaching in 1980 some 98 percent of all exports. As mentioned in the previous chapter, massive investments were absorbed by this sector to develop it. A large part of these investments were also financed by borrowings from the international financial markets. In 1979, the country's borrowings reached around $US 18.5 billion or 6 times of its level in 1973. But the comfortable position of Algeria to borrow from international markets did not last long. With the drop in the oil price in 1986 from $US26 to $US15 a barrel, the government revenues dropped from $US12.8 billion in 1985 to $US7.8 billion in 1986 (Behidji, *1er Trimestre,* 1997: 25) or a drop by some 40 percent (Sari, 2002: 17). The contraction in the oil revenues and the difficulties to secure loans, particularly long and medium terms loans, from the international financial institutions pushed the government to tighten its control over imports and also over its financial assistance to the public sector. As a consequence, state-owned enterprises became unable to buy the necessary inputs which resulted in massive reduction in their production (Abdoun, *4em Trimestre 1998 et 1er Trimestre,* 1999). The production of state-owned enterprises operating in manufacturing, for example, dropped in three years or between 1985 and 1987 by 20 percent. For Chikhi (1990: 10) "This situation gives an image of a country incapable of producing". Since 1986, the national economic growth started to deteriorate rapidly. It dropped from 4.6 percent in 1985 to minus 1.9 percent in 1987 (Chikhi, 1994: 13).

The immediate results of this deterioration were a significant increase in the rate of inflation which went from 8.2 percent in 1984 to 46 percent in 1987, a massive drop in job creation from almost 2 million created between 1967 and 1983 to 138,000 jobs in 1984 and to only 88,000 in 1987 (Chikki, 1994:15). Because of the massive drop in job creation and the closure of many production plants as well as the growing number of the new job seekers, the rate of unemployment increased to some 22 percent of the active population in 1987.

The rising unemployment had serious repercussions on the standard of living of the population. It was estimated that between 1984 and 1987 the purchasing power of the Algerian citizen for basic foods such as bread, milk, cooking oil and sugar dropped by 20 percent. Because of these economic and social problems, it was inevitable to see an explosion in social tensions. Violence, workers' strikes and public demonstrations against the government in most cities intensified in 1987 and 1988. To tackle these social tensions, the government undertook measures to revitalise the national economy first by the corporatisation of the state-owned enterprise and this by granting autonomy to its general manager to take strategic decisions, and second by introducing the free market economic system.

5.3. The First Sign of the Government Disengagement from the Economic Activity

The first sign of the government disengagement from the economic activity came in late 1987 when the Law no. 87-19 dated 8 December 1987 was promulgated which granted the general managers in the state cooperatives in the agricultural sector the autonomy to take strategic decisions. Few weeks later, the Law no. 88-01 dated 12 January 1988 was promulgated to grant autonomy in the commercial enterprises whether operating in manufacturing or service sectors (COREP, 1989). The 88-01 law was designed to transform the state-owned enterprise into an *Entreprise Publique Economique* (Public Economic Enterprise), (EPE), ruled by private commercial rules. Those EPEs with an important position in the economic development of the country and operating at national level were assigned the ownership status of joint stock companies and those operating at local level were, however, assigned the ownership status of companies with limited responsibilities. The two types of ownership differed in their control structures. The stock companies were controlled by boards of directors whereas the limited companies by supervisory boards. Because of the important place that the EPEs operating at national level had represented and still represent in the government policies and the national economic activity of the country and more importantly their importance in the privatisation strategy of the government, it was decided that it would be important to examine the type of management-government relationship that the Law 88-01 had instituted in these enterprises. Having some insight on this relationship would demonstrate how much sincerity the government had in its claim to disengage itself from the management of the economic activity in the country.

5.3.1. The Autonomy of the EPE: Autonomy Incomplete

Under the Law 88-01, ownership and management were separated. The management of the EPE was handed over to the general manager while the ownership of the EPE had to remain in the hands of the government. The government ownership retained in the EPEs had to be managed by public holding companies called *Fonds de Participation* (Participation Founds). What the law had instituted was a management structure divided between two separate bodies. One body exclusively in charge of the EPE's financial operations represented by the *Fonds* and one in charge of the rest of its internal operations represented by the board of directors and the general manager. The mission and the corporate control structure of each of these two bodies tell us exactly what the government intended by the Law 88-01.

5.3.1.1. The Government Presence through the Fonds de Participation

The *Fonds* were joint stock companies. Their mission, as explained in the *Rapports sur l'Autonomie des Entreprises* published in 1987, was to:

- Restructure the financial situation of the socialist enterprises before these enterprises would be transformed from socialist managed enterprises into EPEs;

- Ensure the best management of the government capital in the EPEs to reduce financial wastage;

- Introduce investments in the EPEs on behalf of the government to make the EPEs efficient and profitable;

This mission had to be carried out by:

A. The General Assemby of the Fonds. All the Fonds were governed by one general assembly (*Décret no. 88-119*, 21 June, 1988). This assembly was composed of 15 ministers (*Décret no.88-120*, 21 June, 1988). All its decisions had to be elaborated within the economic and social strategy of the government. In its ordinary and extraordinary meetings, the assembly was allowed to decide on:

- The dividends to be distributed and the profits to be retained in the EPEs;
- The prerogatives of the members of the boards of directors of the EPEs;
- The charter and business contracts of the EPEs;
- Whether to accept or reject the annual reports submitted by the EPEs;
- The nomination and compensation of directors of the EPEs and of the financial auditors.

The influence of the head of the government, the governor of the Central Bank of Algeria and the treasury in its decisions was strong.

<u>*B. The Board of Directors.*</u> The board was composed from 5 to 9 members who were nominated by the government for a period of 5 years renewable (*Loi no.88-03*, 12 January, 1988). They were in their majority members representing the different government departments and industries owned by the goverment. The mission of the board was the execution of the resolutions of the general assembly and the instructions flowing from the state treasury and the *Conseil National de Planification* (the national planning body), (CNP). To make sure that the EPEs did not deviate from the decisions taken by board of directors of the *Fonds* and its general assemby, the board of directors of the *Fonds* nominated the personnes who should sit in the general assemblies and the board of directors of the EPEs (*Loi no. 88-03*, 12 January, 1988)

Also, to avoid the monopoly of one *Fond* over the financial management of the EPE, the capital of each EPE was divided between three *Fonds* except for the banks where their capital was divided between four *Fonds.* All the 781 enterprises which were listed to be transformed into EPEs were divided between eight *Fonds.* Each *Fond* included in its portfolio between 23 and 163 enterprises operating in similar or related activities. The number of enterprises in each *Fond* and the ownership stake of the *Fonds* in these enterprises are given in table 5.1 below.

Table 5.1. The EPEs in the portfolios of the eight Fonds de Participation by the end of 1993.

Fonds	**Number of EPEs**	**Ownership stake of the Fonds**
Building Construction	163	Majority Ownership in 95 EPEs
Services	133	Majority/Unique Ownership in 45 EPEs
Food Industries	110	Majority Ownership in 38 EPEs
Electronics, Telecommunications, Informatics	104	Majority Ownership in 27 EPEs
Chemicals, Petrochemicals, Pharmacy	94	Majority Ownership in 25 EPEs
Mining, Hydrocarbons, Hydraulics	30	Majority Ownership in all 30 EPEs
Equipments/Materials used in different Industries	23	Majority Ownership in all 23 EPEs
Miscellaneous Industries	124	Majority Ownership in 35 EPEs

Source: Data analysis.

What is worth mentioning here is that when the *Fonds* took over these enterprises, the majority of these enterprises suffered heavy debts and had records of poor performance. The mission of the *Fonds* as mentioned before was to revitalise these enterprises and this by restructuring their financial situations to speed up their transfer into EPEs. The state treasury spent some 600 billion dinars in their financial restructuring between 1991 and 1995. This restructuring was expected to give confidence to the EPEs so they could produce more and increase their export to reduce the burden of their debts. They were required to be profitable like any private companies. They were also allowed to set the prices of their products except for what was considered strategic products of first necessity like flour, milk, water, electricity. More important, they were allowed to set the policies of their personnel, shed workers for economic reasons, choose their own suppliers and customers and borrow from international financial markets. To concretise the autonomy of managers in strategic decision-makings, the law 88-01 instituted in the EPE the control structure followed in the private stock company in the free market economic system. But in practice, as seen next, the autonomy was incomplete and the disengagement of the government from the management of the EPE was artificial.

5.3.1.2. The Extent of Autonomy Allocated to the General Manager

The only way to understand how much autonomy the management of the EPE had is to look at its control structure. The EPE was controlled by three bodies:

A. The General Assembly. When the government owned 100 percent of the shares of the EPE, its *Fonds de Participation* assumed the status of the general assembly of the EPE. In other cases, the general assembly was composed of members representing a mixture of members from the Fonds and other public enterprises. One important point to mention here is that the Law no.88-01 dated 12 January 1988 relative to the EPE kept silent on the prerogatives of the general assembly and how its members should be nominated.

B. The Board of Directors. The law also kept silent on the prerogatives of the board of directors and how its members should be selected. However, the board was composed with a minimum of 7 directors and 12 directors to a maximum. Amongst these directors, 2 should be representatives of workers of the EPE. The directors were nominated by the general assembly for a period of 6 years renewable. A director was not allowed to participate in more than 3 EPEs and his/her remuneration was essentially based on what was called *Jetons* which was related to the attendance of a director at the meetings of the board and a bonus called *Tantième.* In the early 1990s, the average amount of a *jeton* was 140 dinars per meeting. And since most EPEs had between 4 and 6 meetings per year, the annual income of a director by attending the meetings in one EPE was on average between 560 and 840 dinars. As a director was allowed to participate in 3 EPEs to a maximum, his/her global income for being a director amounted to an average between 1,680 and 2,520 dinars per year. For the *Tantième*, however, most directors did not draw significant income. The *Tantième* was a bonus based on the profitability of the EPE. And the amount allocated to the *Tantième* was not allowed to be more than twice the annual global amount drawn from the *Jetons.* Since the majority of the EPEs in the 1990s suffered form low productivity and negative profitability, the *Jetons* were the only source of earnings from being a director in a board of an EPE.

C. The General Manager. The Decree no. 88-101 dated 16 May 1988 clearly called for the resignation of the general manager in charge of the socialist enterprise once his/her enterprise was converted into an EPE. But there was, however, no mention on how the general manager of the EPE should be selected and what should be his/her prerogatives in the EPE and how he/she should be remunerated. These came only later with the promulgation of the

Code de Commerce (Commercial Code) published in 1993 which is still in application to the present time while writing this work. The code gives great details on the obligations, responsibilities and composition of the general assembly and the board of directors. What is more significant in the code is that it gives the general manager ample power to manage the EPE. He/she is in charge of the Management Board of the EPE and also elected to be the President of the Board of Directors making him/her President General Manager (PGM). The duties, compensation and sanctions of the PGM have to be negotiated between the PGM and the board of directors and concluded in the work contract of the PGM signed by the two parties. In most EPEs, the PGM assumed the presidency of the board of directors of the parent enterprise and those of the divisions. In some cases, the president of the board of directors of a division was selected from a functional department located at the parent head office. At Saidal, for example, the president of the board of directors of the division Biotic was the manager of the Human Resources Department, that of the division Anti-Biotic the manager of the Financial Strategy Department and that of the division Pharmal the manager of the Audit and Analysis Department (*Groupe Saidal*, 2002). The logic behind the concentration of power mainly in the hands of the PGM was to create coordination and synergy between the activities of the EPE.

From the above mentioned control structure, it is clear that there was no actual autonomy granted to the general manager of the EPE as the law 88-01 claimed. The government kept its control power over the EPEs through its representatives in the general assemblies and the board of directors of the

EPEs. Also, the *Fonds de Participation* failed to fulfil their main mission to make the EPEs efficient and profitable with the exception of those enterprises which operated in hydrocarbons which were doing well because of the huge investments made by the *Fonds* to modernise their equipments in order to increase production and attract foreign partners.

The inability of the *Fonds* to improve the performance of most of their EPEs was caused by various factors. First, the timing to fulfil this mission was not right. The *Fonds* were created at a time when the political situation in the country was unstable leading to the continuous change of ministers and consequently the members of the *Fonds.* Second, the law 88-01 forbad the liquidation of a poorly performing EPE. If the liquidation of an EPE was a necessity, the assets and the shares of the EPE had to be transferred to another EPE or to a local authority. The private sector was not allowed to purchase the assets or the shares of the liquidated EPE and therefore private investors were excluded from the participation in the capital of the EPE and in its management. Third, the macroeconomic environment was very hostile. Among the environmental constraints was the steady depreciation in the value of the dinar. Its value dropped from 4.9 per $US in 1987, 7.6 in 1989, 8.9 in 1990, 18.5 in 1991 to 56.20 in 1996 (Abdoun, *4em Trimestre 1998 et 1er Trimestre*, 1999: 39). This depreciation reduced the power of the EPEs to import the necessary raw materials and technology needed in their production processes. Fourth, the *Fonds* were reluctant to invest because neither the CNP nor the *Fonds* had a clear strategy on how to allocate the scarce resources in the country. Important too was the fact that the *Fonds* controlled enterprises which operated in different activities and many of the members of the general assembly and the board of directors of the *Fonds* did not have the required technical knowledge of the activities of the EPEs in their porfolios. Though the *Fonds* were supposed to exercise tight control over their EPEs by regularly analysing the financial and economic performance of the EPEs, in reality this rarely happened. Often the *Fonds* received only the financial accounts of the EPEs which were in most cases manipulated by their managers. Fifth, neither the *Fonds* nor the general managers of the EPEs were ready to face the new rule of the game in which the public enterprise found itself in. Since the law of autonomy of the public enterprise was introduced in 1988, the government administration embarked in installing the legal and institutional framework to build up the free market economic system where the liberalisation of trade put the EPE face to face into competition with not only domestic private firms but significantly with big foreign firms, a competition which the EPE was not ready for.

5.4. Putting in Place the Institutions of the Free Market System

When the state-owned enterprise was granted management autonomy, the intention as it seems was not only to make the state enterprise efficient but also to prepare it for privatisation. Though until 1994, there was no mention of the word privatisation in the speeches and debates of any government official, the prediction was that with Algeria's difficulties to secure loans from international financial institutions because of its growing debts, its inability to service its debt arrears and the steady decline in the production of all the sectors of the economy, the country would eventually fall in the trap of the IMF and accept the IMF's conditions in return for loans where privatisation would constitute one of the main conditions. What is evident is that between 1988 and 1993, the government were active putting in place the free market institutions and mechanisms to welcome privatisation by introducing a series of legal and institutional reforms such as:

- The law of the private sector orientation (*Loi no. 88-25,* 12 July, 1988);

- The law relative to the abolishment of the external trade monopoly (*Loi no. 88-29*, 19 July, 1988);

- The law relative to the liberalisation of prices (*Loi no. 89-12,* 5 July, 989);

- The authorisation of employers to create their own associations (1989) such as the CAP, CNPA, ACE, CGEOA and the UNEP;

- The revision of the Labour Relations (1990). This revision abolished the monopoly of the UGTA and introduced the trade union pluralism. It also abolished the SGT which was replaced by the collective bargaining between the employers and workers representatives;

- The creation of the stock market (1990);

- The introduction of VAT (1992);

- The revision of the Code of Commerce of 1975 (1993).

Perhaps the most striking reforms of all during this period which had a significant effect on the social and economic structure of the Algerian society were the break up with the socialist ideology followed since independence, the expansion of the private sector and particularly the authorisation of foreign companies to invest in the country especially in hydrocarbons, the reform of the banking sector and the privatisation of the state-owned enterprise.

5.4.1. The Democratisation of the Political System

The democratisation of the political system came after the public demonstration against the government in October 1988 which ended with the death of some five hundred people. Straight after this event, the government introduced in 1989, the country's third constitution since independence - the first was in 1963 and the second in 1976. The new constitution abolished socialism and introduced the multi-party political system. As a consequence, several political parties even those which were banned were formed in September 1989. To accelerate both the political and economic reforms, Mouloud Hamrouche, a pro-free market reformist, was selected by the end of 1989 as the head of the government. Hamrouche was welcomed by the international financial institutions. He was seen as a man who could speed up the economic reforms and as a result some 973 billion dollars (Benderra, 2002) worth of credits were allowed to Algeria between 1989 and 1991 to carry out his economic reforms. But while the economic, legal and institutional reforms were going well, the multiparty system did not seem to go in the right direction. In the regional and provincial elections, the Islamic party, the FIS, won more than half the seats in the provincial elections or 853 seats out of 1,541 and almost the majority of the seats in the regional elections or 32 out of 48. The presidential elections which were anticipated to take place in June 1991 did not take place and this led the FIS to call for a national strike which resulted in the intervention of the army and the replacement in June 1991 the government of Hamrouche with the pro-centrally planned system Ahmed Ghozali (Entelis, 1992; Bouardel, 2003; Heristche, 2004). In his speech in Parliament in June 1991, Ghozali (*Services du Chef du Gouvernment*, 1991) strongly criticised the economic reforms of his predecessors as too quick too soon. He introduced an economic strategy for development with three objectives to achieve:

- The compression of imports especially those not desperately needed in the production and consumption to reduce the government expenditures;

- Expanding the capacities of oil and gas production and this via the creation of partnership between SONATRACH and the multinational companies;

- Reducing inflation by freezing salaries in the public sector and increasing taxation.

The strategy of austerity followed by Ghozali was a clear return to the government strong intervention in the national economy. However, it neither showed any sign of improvement in the economic growth nor was welcomed by the international financial institutions. Under Ghozali and later under Belaid Abdesslam - Abdesslam was the former Minister of Industry who served under Boumedienne's government and he replaced Ghozali in 1992 and followed similar lines of government intervention as Ghozali - long and medium credits from the IMF and other Western countries became difficult to secure. With the drop in the oil price in 1992 and the high portion of hydrocarbon export revenues, estimated to 90 percent of total revenues, put to service Algeria's foreign debts (Guendouzi and Kabri, *4em Trimestre 1998 et 1er Trimestre*, 1999: 134), the country's economic and social situation entered into deeper troubles. In fact during this year, or 1993, it was believed that the country's foreign reserves were enough to pay for no more than one month of imports. This crisis was further exacerbated by the growing political insecurity which broke up as a result of the cancellation of the legislative elections, the dissolution of the parliament and the resignation of the President of the country, Chadli Ben Djadid in 1991. The country was put under a state of emergency and the presidency of the country was taken over by a collegial structure called the *Haut Comité d'Etat* (State High Committee) Presided by Ali Kafi. Under Mokdad Sifi who became the head of the government in 1994, the presidential elections were organised in November 1995 where Liamine Zeroual became the president of the country. Under Sifi and Zeroual the economic reforms initiated since 1988 accelerated but this time under the supervision of the IMF and the World Bank through the two Programmes for Structural Adjustment (PSA) signed by the Algerian government in 1994 and 1995 where the expansion of the private sector, the liberalisation of the banking sector and the privatisation of the state-owned enterprise were amongst the most important conditions of these programmes.

5.4.2. The Expansion of the Private Sector

Since the Tripoli Charter of 1961 (Amirouche and Chegham, 1985) until today, the Algerian government has always recognised the private sector as an integral part of the national development. The Code of Investment of 1963 provided a lot of facilities to encourage the participation of the private sector, which was predominantly foreign, in the economic activity such as low rates of taxation and facilities to bank credits. But the private sector was reluctant to invest fear of future nationalisation. In 1966, a new ordinance (*Ordonnance no.66-284* dated 15 September, 1966) was enacted to explicitly specify the monopoly of the government over the sectors considered strategic such as hydrocarbons, mechanical engineering, iron and steel while the private sector should operate in the non strategic industries such as textiles, leather, food processing, plastic and construction (Hadjseyd, 1985).

With the socialist approach to economic and social development initiated since 1971, both in the National Charter (1976) and the Constitution of 1976, the private sector was put under rigid control. An investor willing to create a private firm should go through a chain of bureaucratic procedures which could take months, had to pay high taxation, faced difficulties to secure credits from the state banks and the size and the activities in which the firm should operate were increasingly restricted. More significant, the Law 78-02 dated 11 February 1978 put an end to the freedom of the private firm to import the raw materials and equipments from foreign markets. The socialist managed enterprise was the only commercial entity allowed to import input supplies needed in the economic production. The private sector was as it seems banned from import fear of any alliance with international capital, to allow the government to have a full control in the transfer of capital to foreign markets and fundamentally to protect the domestic production from competition of imported goods. By 1982, about 25 percent of private firms operating in manufacturing closed their doors because of the shortages in supply of raw materials and equipments (Bouzidi, 1985). Only 12,000 private firms remained in operation mainly in industries requiring less technology. About half of these firms operated in construction industry.

In the sixth session of the Central Committee of the single political party FLN which took place in 1982, the role of the domestic private sector in the national economy was reviewed. Subsequently, a new law (*Loi no.81-11* dated 21 August 1982) was enacted lifting the rigidity of the previous legislations on private investment and giving the private firm a significant role to play in the national economic growth. The objectives assigned to the private firm were (Hammam, 1985):

- To satisfy the needs of the population in goods and services;

- To create jobs;

- To extent the national production capacity;

- To be not a competitor but a complement to the public sector.

The impact of this legislation on the expansion of the private sector was limited. Though some firms were created to operate in activities which needed technical skills such as mechanical engineering and electricity, the majority of newly created firms were oriented towards food processing, construction, textiles and all industries which carried less investment risks. The fact remains that the true expansion and diversification of the private sector came only since the 1990s with the promulgation of the law relative to the Money and Credit of 1990 (*Loi no. 90-10,* 14 April 1990) and the progressive lifting of government monopoly over the external trade. In its article 183, the law no.90-10 allowed the participation of foreign investors in the economic activity of the country. The distinction between foreign and domestic investors was abolished with the legislative decree (*Décret no. 93-12,* 5 October 1993) relative to the promotion of investment of 1993. The decree guaranteed the free investment in the country, the equality before the law of domestic and foreign investors, less administrative procedures to open a business, less taxation and the creation of the National Agency for Investment and Promotion or APSI to assist investors with the necessary information and make the process for creating a business quicker. Further encouragement to invest in the country was promulgated with Ordinance no.01-03 dated 20 August 2001 relative to investment development. Investments made in activities perceived by the government as strategic and which lead to a sustainable development could benefits from a number of advantages such as low custom duties, the exemption for ten years from the payment of a number of taxes and implicit and explicit government assistance. To accelerate the activity of investment in the country by local and foreign investors, the government created an agency called *Agence National de Developpement et Investissement* (National Agency for Development and Investment), (ANDI) (*Décret no. 01-282*, 24 Septembre, 2001), which replaced the APSI, to provide the right information to investors and make the administrative procedures to open a business in the country less problematic.

The series of laws relative to investments enacted since 1990 had tried to lift the institutional constraints facing investment in the country to boost the confidence of both domestic and foreign investors that investment in Algeria was safe. For foreign investors, they were allowed to transfer their profits outside the country and were guaranteed against the prospect of future property expropriation. As a result, the size of the private sector and its contribution of the GDP had grown tremendously. The number of firms increased from some 57,000 in 2001 to 150,000 in 2003 (Belmihoub, 2006). In the year 2004, the number almost doubled reaching some 225,449 firms and employing between 250,000 and 300,000 workers. The contribution of these firms to the GDP was estimated to reach around 54 percent. The majority of these firms were of small size. About 90 percent employed between 1 and 9 workers. Also, the majority operated in agriculture and food processing, construction, retailing, services and were concentrated in the big cities and urban areas (for more details on the development of the private sector in Algeria see the report of the CNES published in 2003).

Despite all the measures that the government has so far introduced to promote private investment, the private domestic investor was until recently still constrained by a bundle of institutional problems. According to the report of the CNES (2003) and the report of the World Bank (2003) the private firm in Algeria faced strong competition from imports and the informal sector, high taxation, banks high interest rates, difficulties to secure bank credits and tight regulations of entry. For example, an entrepreneur wishing to open a business had to go through 49 procedures and wait around 407 days and more, depending on how much connection the entrepreneur had with the admininstrative bureaucracy, before the business is finally registered. Since 2005, however, the government has introduced some reforms to reduce the cumbersome registration process for opening an enterprise. An entrepreneur has to go through 14 procedures, wait for 26 days and pay around 9 percent of the capital of the enterprise (World Bank, 2006)

5.4.3. Reforms of the Banking System

The development of the banking system went hand in hand with the development strategies followed by the government since independence. Apart from the Central Bank of Algeria which was created in December 1962, all the commercial banks were created following the nationalisation of the French banks in 1966 and 1968 as a result of these banks refusing to participate in the development programmes initiated by the government of Boumedienne.

During socialism, the banking system was highly regulated. The bank was no more than a simple administrative institution and therefore it lacked the spirit of competition, innovation and modernisation. Though in all the financial laws promulgated since 1970, the banks were required to exercise tough control over the financial expenditures of the state-owned enterprises to reduce wastage (Benhalima, 2001), in practice, the control was loose. The state-owned enterprise had no problem to get credits from its own bank. Under a simple presentation of a credit application, Bettahar argued (1995: 17), "The tap for funds was turned on".

Until 1986, this type of bank-enterprise relationship was tolerated because of the abundance of the government revenues drawn from the high price of oil in the 1970s. But with the changes taking place in the international monetary system since the early 1980s and the sharp drop in the oil price in 1986, the Algerian legislators introduced as mentioned earlier the law of autonomy of the state-owned enterprise in 1988 to reconstruct the government-public enterprise relationship. In 1989, the banks were transformed into joint stock companies (Benachenhou, 1998). Few months later, the Law no.90-10 dated 14 April 1990 was introduced to separate the banking system from the control of the state treasury and the Minister of Finance. The Central Bank of Algeria was transformed into the Bank of Algeria governed by a management team composed of a governor and a board of directors all nominated by the government. The management team became the only authority allowed to introduce the conditions regulating the behaviour of banks and financial institutions operating in Algeria. The law also introduced the permission to create private banks and financial institutions. By 2004, the financial market in Algeria counted 21 commercial banks and 7 financial institutions *(Liberté,* 25 March, 2004*).* Though 15 of the commercial banks were private, these were small in size. Until 2002, the public banks still dominated around 95 percent of the financial resources in the country. Around 91 percent of long-term credits and some 84 percent of deposits were transacted in these banks. The domination of public banks had been resented by the IMF and the World Bank and they recently called for their privatisation as the only mean to stimulate them to be active players in the economic activity (*Jeune Independent*, 7 October, 2006*).* The government had taken some initiative to prepare them for privatisation by spending in 2002 some 75 billion dinars for their recapitalisation. Their managers had also introduced, through the assistance of foreign consultants, international standards in the various activities of these banks to improve their performance. However, until 2006, there was no sign of the privatisation of any public bank. In fact, despite their management autonomy, public banks including the Bank of Algeria were still exposed to strong intervention by the Minister of Finance and the *Inspection Générale des Finances* (General Inspection of Finances) (IGF) making the enterprise-bank relationship in favour of the public enterprises than the private firms especially the medium and small ones.

5.4.4. *Privatisation of the State-Owned Enterprise (1994 onwards*)

Between 1989 and 1991, under Mouloud Hamrouche, the head of the government at that time, the reforms to the free market economic system were working fast and this was with the blessing and the financial help provided by the international financial institutions which amounted during this period to some $US 1.120 billion.. As mentioned earlier, the positive attitude of the international financial community with Algeria changed when Ahmed Ghozali (1991-92) and Belaid Abdesslam (1992-93) took over the government office. The austerity measures followed by these two heads of government to stabilise the economy did not yield fruit. The national economic growth was working below its level in the late 1980s. In 1994, the production of the EPEs operating in manufacturing with all industries combined dropped by 50 percent from its level in 1989. Also, it became very difficult for the Algerian government to secure loans from international financial markets especially for long and medium term loans as Algeria became regarded as a risky borrower. Its debts increased from $US 25.7 billion in 1993 to $US 29.5 billion in 1994 and more than 90 percent of the government revenues drawn from hydrocarbons were used to service these debts (Harchaoui, 2006). The immediate response to this alarming situation forced the government to enter into negotiations with the IMF for loans but this time with conditions attached to the loans. Two Stand-By agreements were signed as a consequence. The first Stand-By was signed in April 1994 and the second in March 1995. The two Stand-By allowed the extension of the period for the repayment of $US 16 billion worth of debts from 3 years as was agreed in 1990 to 16 years (Harchaoui, 2006). The repayment of the debts over a period of 16 years was supposed to lift the pressure from the Algerian government to service its debts and consequently the portion of export revenues used to service the debts dropped from 93 percent of the total revenues to 47 percent. This reduction together with more credits coming from the international financial community and also the increase in the price of oil in 1995-1997 were all providing good conditions to implement the objectives included in the two Programmes for Structural Adjustment (PSA) (for more details on the objectives of the PSAs and their effects on society see CENEAP, no.17, 2000 and CNES, 2000). The main objectives included in the two PSAs were:

- The liberalisation of the external trade;
- The liberalisation of price;
- The convertibility of the dinar;
- The ban of subsidies for all commodities including energy and food of first necessity to control state expenditures;
- Freezing salaries;
- The liberalisation of the banking system by creating private banks;
- Privatisation of the public enterprise.

These objectives were sought to stabilise the macroeconomic environment by reducing inflation and the state budget deficits (IMF, 1995). By the year 2005, many of the objectives included in the PSAs seemed to have been achieved. The macroeconomic environment seemed to have been stabilised such as:

- From an average growth of 1.7 percent per years between 1980 and 1994, the GDP grew between 1999 and 2002 by 2.5 percent per year (World Bank, 2003). It grew further to 4 percent per year between 2003 and 2004 and to 5 percent in 2005 (*L'Economie de l'Algerie,* 2005);

- Unemployment dropped from 30 in 1994 to 13 percent in 2005;

- Inflation dropped from 30 percent in 1994 to 3 percent in 2005 (*L'Economie de l'Algerie,* 2005);

- Foreign debts dropped from 40 percent of GDP in 1999 to 27 percent in 2005 or from $US 28.3 billion in 1999 to $US 5 billion in 2005. And foreign reserves reached in 2005 around $US 70 billion;

Though encouraging, the World Bank considered these results not enough to stabilised the economy and regarded the privatisation of the state-owned enterprise was moving at a slower pace (for more details on the transition in Algeria and the impediments for this transition, see the report of the World Bank published in 2003). Until 2003, large state-owned enterprises were still waiting to be privatised. One of the reasons for the slow move of its privatisation could be related without doubt to the fact that the government was still not ready to embark in such a programme which the experience of other socialist countries has proved to create many social problems and little short and medium economic benefits. In addition, the political environment which dominated the whole period of the 1990s was very unstable and there was a strong opposition to privatisation by many influential factions in the government apparatus and society. However, privatisation in Algeria until 2005 went through three different phases. Before discussing these phases, it considered best to understand first what objectives the Algerian legislators sought to achieve by privatisation.

5.4.4.1. The Objectives of Privatisation

In all government official publications relative to privatisation, the concept 'Privatisation' was defined in a broader sense. In the documents (1994, March 1995, October 1995) published by the Ministry of Industrial Restructuring and of the Participation, privatisation meant the transfer of the property and management of the public enterprise to the private sector, the installation of an institutional and judicial environment capable of developing the private sector and the definition of the role of the government in society. In similar lines, in Ordinance no.95-22 relative to the privatisation of the *Entreprise Publique Economique* and in Ordinance no. 95-25 relative to the *Géstion des Capitaux Marchands de l'Etat* (Management of the State Trading Capitals), privatisation could be understood in the first ordinance as the transfer of all or part of the assets of the public enterprise and the transfer through contracts of the management of the public enterprise to private investors with the objective to improve the performance of the public enterprise. In the second ordinance as well as in the Legislative Decree no. 93-08 modifying and completing the Commercial Code of 1975, privatisation meant the participation of the private sector in the ownership of shares in the public enterprise. The share ownership would allow the private investor to participate in the management and in investments in the public enterprise. Later in 2001, the Ordinance no. 01-04 relative *à l'Organisation, à la Géstion et la Privatisation des Entreprises Publiques Economiques* (Organisation, Management of the Economic Public Enterprises) gave more broader definition than any previous official publications. In this ordinance, privatisation meant the major means which would be used to accelerate the transition to the free market economic system. Generally speaking, all the definitions on privatisation which had been provided by the government administration since 1994 could be understood that in the eyes of the Algerian legislators, privatisation could be used to achieve three types of objectives which were different and not quite easy to achieve but interconnected;

- *Financial objective*. For a long time, the commercial state-owed enterprise had been a heavy burden on the government budget. Huge financial assistance had been poured into this enterprise to make it efficient. In addition to the huge assistance made by the state treasury between 1982 and 1990 which was estimated to fall around 2,000 billion dinars, the treasury poured between 1991 and 1997 another 1,250 billion dinars for the same purpose (Harchaoui, 2006) where around 840 billion were absorbed by the state-owned enterprises operating in manufacturing. With privatisation, the weight of the financial burden to bring rescues to the loss-making state-owned enterprises was expected to be reduced. And since only public enterprises operating in industries considered by the government to be of strategic importance would be exempt from privatisation, such as for example hydrocarbons, the state treasury was expected to be left with only a handful of public enterprises in its portfolio and consequently its rescue expenditures would reduce enormously. In addition to the tight control over the state treasury rescue expenditures, the treasury wanted also to reduce its expenditures related to the costs involved in privatisation. A large portion of the revenues drawn from the sale of a public enterprise was allowed to be retained by the privatised enterprise with the purpose to repay its outstanding debts and to pay for the costs of workers redundancies following the organisational restructuring (Mebroukine, 1999) which the state-owned enterprise listed for privatisation was required to introduce.

- *Economic objective*. By transferring the ownership of the state-owned enterprise to the private sector, it was expected that the efficiency of the privatised enterprise would improve which consequently would improve the national economic growth and reduce the reliance on hydrocarbons as the major commodity for export and the only source for the government foreign revenues. Privatisation was supposed to be a useful instrument to attract foreign investors who not only bring the technology and the capital but also open foreign markets for the local production and stimulate competition in the domestic market. Bouzidi (1999) explained the reasons why attracting foreign investors was important. For him, the public enterprise would never be able to compete in a free market economic system because it did not have enough experience in competition, enough experience in export, still used outdated technology, still produced low quality products and suffered qualitatively and quantitatively in management competence. This was one of the reasons why partnership with foreign companies had constituted one of the main methods used in privatisation of large state-owned enterprises.

- *Political objective*. Any strategy that deals with the economic and social aspects of society must have acceptance at least with the majority of the population. In the case of privatisation, the acceptance of workers to sell their enterprises must be gained before the process of privatisation starts at all. In all the laws relative to privatisation, the Algerian legislators made sure to include workers as active participants in the process of privatisation. Workers were encouraged to buy the assets and shares of their enterprises. The end result was to reduce workers opposition to privatisation, to show to the general public that privatisation was legitimate since it was accepted by workers and that the essence of privatisation was to increase popular ownership of the means of production. To create the support of workers to privatisation and to motivate them to increase productivity, the decree no.01-352 dated 10 November 2001 provided workers with a 15 percent discount of the price of the assets for sale. Workers were also reserved a 10 percent ownership of the shares of any plant or enterprise sold to the private sector.

Important too was the emphasis on the protection of workers' jobs in the privatised enterprise. A private investor acquiring the plant or the enterprise was required to avoid the reduction in the number of workers. This was purposely designed. The Algerian legislators wanted to avoid repeating the same mistake of the early 1990s where a massive reduction of workers was carried out by enterprise managers to reduce operation costs, a reduction which culminated in serious social tensions and political instability in the country. They also wanted to avoid the demoralisation of workers which could emerge following privatisation and also avoid the antagonism of workers to the new owners of the privatised enterprise which could culminate in the workers creating acts of sabotage to destroy the privatised enterprise which would be detrimental not only to the privatised enterprise but the whole process of privatisation in the country.

Trying to achieve both the economic and political objectives had proved difficult. Most investors, especially foreigners, were not ready to accept the surplus of workers which most enterprises listed for privatisation suffered from. Also, the whole institutional framework created to carry out the process of privatisation was rigid and lacked transparency which further discouraged the participation of investors and made the process of privatisation working at a lower pace as the next sub-section will reveal.

5.4.4.2. The Phases of Privatisation and their Institutional Framework

Any strategy of privatisation should put in place an institutional framework to facilitate the elaboration and implementation of privatisation. The building of the institutional framework for privatisation in Algeria was a long process as previously mentioned. It started in 1994 with the promulgation of the Law of Finance of 1994 and continued until 2001 with the promulgation of Ordinance no.01-04 dated 20 August 2001. The slow progress to sell the state-owned enterprises especially the larger ones was caused by the multiplicity of constraints in which the country found itself in such as the political unstability, the strong opposition of some political factions and influential groups in society which saw in privatisation the end of their control over the national economy, the strong opposition of workers and their representatives in Parliament who saw in privatisation the end of their jobs, and also the lack of expertise of the government administration to devise a strategy with concise and coherent policies of when to privatise, what to privatise, how to privatise and to whom to privatise. This combination of constraints made privatisation of the state-owned enterprise to be carried out in three phases:

A. Phase One of Privatisation (1994). The first sign of privatisation came after the first Programme for Structuring Adjustment included in the first Stand-By signed in 1994 between the Algerian government and the IMF. The first time the term privatisation appeared in a government official document was in articles 24 and 25 of the law of Finance of 1994. In these two articles, the state-owned enterprise was allowed to partially sell its assets to private investors, to open its capital to their participation and it was also allowed without changing its ownership status to transfer its management to private firms. The articles also specified that the transfer from public to private could be made by the following methods:

- Public Offering of Shares;
- Negotiated Agreement;
- Competitive Bidding.

The articles also explained that only 49 percent of the shares of the enterprise should be sold. Also, during this phase, there was no mention of any sale for the benefits of workers or a mention of a specific government institution in charge in the elaboration and execution of privatisation. In Decree no.94-45 dated 28 November 1994 which came to explain how to implement article 24 and 25, the elaboration and implementation had to be carried out at different levels of the government administration. The general assembly of the EPE was given the authority to propose what assets to sell and at what price, but the proposals would take effect only after being accepted by the general assembly of the *Fonds de Participation.* Once accepted, the proposals would be sent for evaluation to three government bodies. These were:

- The National Committee of Follow up which was composed of 6 ministers who belonged to the Ministry of Industry and Energy, Agriculture, Tourism, Commerce, Craftsmanship, and Restructuring and Participation;

- Four Sectoral Committees which represented the Committee of Industry, Committee of Commerce, Committee of Agriculture and Committee of Tourism;

- The Commission of Verification and Control.

Often these different government bodies not only evaluated the proposals made by the general manager of the public enterprise but also interfered in what the enterprise should or should not privatise. This confusion in responsibilities between the different government bodies together with the lack of a properly functioning stock market and the lack of a domestic capital willing to purchase the assets and shares of the public enterprise, resulted that by the end of 1994, not a single asset or share were privatised. The process of privatisation was accelerated only during the second phase of privatisation when the government signed its second Stand-By in March 1995.

B. Phase Two of Privatisation (1995-2000). This phase was characterised by the government making a clear approach to privatisation in terms of which industries were eligible to privatisation and how much to privatise. In Odinance no.95-22 dated 26 August 1995, all sectors which were not considered strategic were listed for privatisation. These were:

- Building and road construction;

- Hotels and tourism;

- Trade and distribution;

- Textiles and food processing;

- Transformation industries. These included: mechanical engineering, electricity, electronics, woods and its derivatives, papers, chemicals, plastics, and leather and skins;

- Goods and passengers transportation;

- Insurances;

- Ports and airlines services;

- Small and medium enterprises operating at local level.

The ordinance did not bring any changes in the methods that should be used in the privatisation of assets or shares. The board of directors of the enterprise listed for privatisation could propose what to privatise, how to privatise and to whom to privatise. The decision depended of course on the activities of the enterprise, on the financial health of the enterprise, on whether the enterprise operated at national or local level. The novelty which the Ordinance 95-22 had brought was the permission of workers of the enterprise slated for privatisation to participate in the ownership of the shares of their enterprise. They were eligible to acquire for free 10 percent of the shares. These shares had no voting rights and no rights to be represented in the board of directors of the privatised enterprise. Also, the legislator had made a clear distinction through Ordinance no.95-25 dated 25 September 1995 between enterprises to be totally privatised and those to be only partially privatised on the assumption that only enterprises which had no future potential and were outside any hope that their performance would improve should be totally privatised. Those enterprises that had the potential for better performance in the future should be revitalised by restructuring their financial situation and their organisational structure and therefore their privatisation should be partial. To make the process of privatisation working smoothly, two separate but interconnected institutions were created to carry out privatisation. These were the *Conseil National de Privatisation* (National Board for Privatisation), (CNP), which was in charge of total privatisation and the *Holdings Publiques* (Public Holdings) in charge of partial privatisation.

- *The Conseil National de Privatisation (CNP).* In Ordinance 95-22, the *Conseil* was charged to work closely with a government body called the *Institution* and with the head of the government. The organisation of the *Conseil* and the responsibilities and compensation of its members were detailed in the Executive Decree no.96-104 dated 11 March 1996. The *Conseil* was composed of 7 members and their duties were to valuate the assets and shares for sale, to determine their prices and to decide on the methods by which they should be sold. Each year, the *Conseil* was required to submit a report on all its activities to the *Institution* (MIR, 1999). The Ordinance 95-22 had kept silent on what were the prerogatives of the *Institution.* Also, the transfer of ownership as stated in this ordinance carried rigid conditions which made privatisation less attractive to potential investors. In its article 4, it was clearly stated that the CNP would be willing to privatise an enterprise only if the new owner would introduce the restructuring and the modernisation of the means of production in the enterprise. The new owner was also forbidden to change the activity of the enterprise for a minimum period of 5 years. The Algerian legislators feared, as it seems, to see privatisation turning into a mean for a quick profit by the new owner. To make sure that the activity of the privatised enterprise was protected, the legislators instituted the participation of the government in the privatised enterprise through its ownership of the "golden share" for a maximum period of 5 years. In the Executive Decree no.96-133 dated 13 April 1996, it was stated that "Any decision taken by the board of directors/supervisory board or the general assembly of the privatised enterprise which goes against the rights attached to the golden share, the members representing the golden shares of the government in the enterprise should oppose the decision …the I*nstitution* in charge of privatisation should be informed". The golden shares allowed the government to nominate 1 or 2 of its representatives in the board of directors or the supervisory board of the privatised enterprises. Though they had only a consultative power in these boards, they were the watchdogs of the government. Any decision that would lead to unjustified liquidation of the enterprise or workers redundancies was considered in the eyes of the government as against the national interest.

The rigid terms and conditions attached to the purchase of the assets or shares were a little bit relaxed when the Ordinance no.97-12 dated 19 March 1997 was promulgated. In this ordinance, investors who were willing to modernise the means of production of the enterprise, avoid job cuts and maintain the activities of the enterprise were guaranteed to benefit from a maximum of 25 percent reduction in the price of sale of the assets or shares. They were also guaranteed that the payment should not all be in cash and in full. Investors were allowed to pay at least 20 percent of the selling price in cash while the rest had to be paid with an annual fixed interest rate of 6 percent over a maximum period of 15 years (MIR, 1999). These benefits were welcomed by investors and in 1998 following the Executive Decree no.98-195 dated 7 June 1998 the first batch of public enterprises to be privatised was announced to the public. The batch included 385 production plants belonging to 89 public enterprises. The decree did not specify which enterprise should be totally or partially privatised. The decision was from the prerogatives of the Public Holdings in consultation with the CNP.

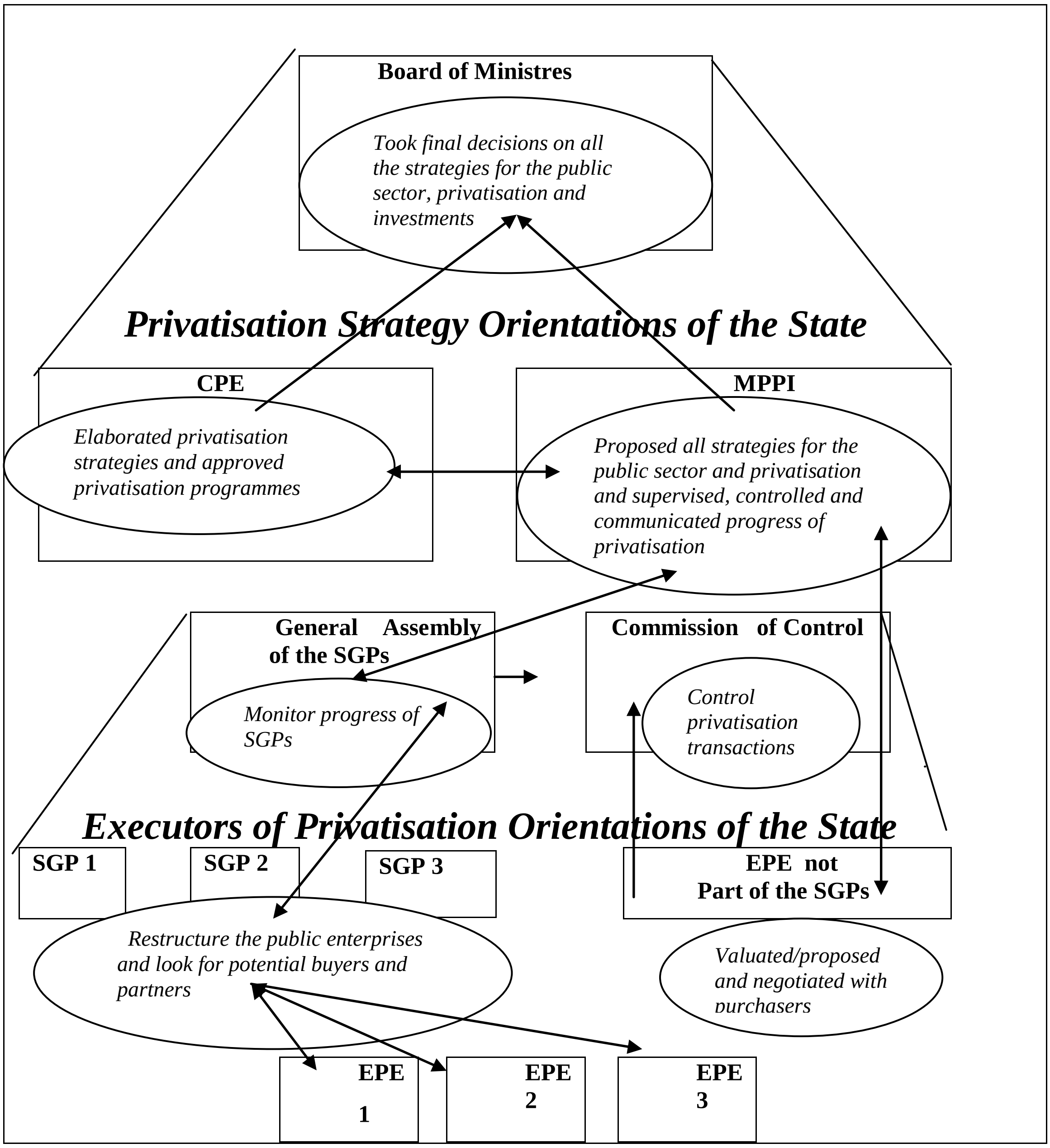
- *The Public Holdings.* These Holdings were created by Ordinance 95-25 dated 25 September 1995 to replace the *Fonds de Participation*. They were charged to carry out partial privatisation and also to act as the only intermediate between the public enterprise and the head of the government. There were 17 Holdings, 12 operated at national level and 5 at regional level. The portfolio of the 17 Holdings included some 1,732 enterprises operating at national and local levels. Unlike the *Fonds,* the government entrusted to the Holdings the ownership of all the properties the government owned in the EPEs whether its ownership was wholly, majority or minority. The Holdings were joint stock companies governed by a two-tier corporate governance structure. Though legally autonomous to take their own decisions, in practice they were under the control of the *Conseil National des Participations de l'Etat* (National Baord for State Participations), (CNPE). The CNPE was composed of 11 ministers and presided by the head of the government and assisted by a small technical secretariat. The main task of the CNPE was to define the strategic policies and the organisation of the public sector and also define the orientations of the Public Holdings and the mechanism for their coordination.

The main mission of the Public Holdings was to restructure the EPEs to make them ready for privatisation. Their life span was limited. Once the privatisation programmes were implemented, the Holdings should be abolished. One thing for sure, the Public Holdings had spent billions of dinars to help the public enterprises listed for privatisation to carry out their financial and organisational restructuring to make them attractive to investors. But at the same time, the restructuring had created massive enterprise closures and workers redundancies. Some 320,000 workers were laid off between 1996 and 1998 following the liquidation of some 1,011 enterprises. About 935 of these enterprises operated at local levels (MIR, 1999: 40). The majority of the liquidation took place in enterprises with no prospect of future performance improvement and were sold through a negotiated agreement between the CNPE and the purchasers and only few through competitive bidding. What is certain was the fact that the presence of two separate institutions to privatise the public enterprise had created a lot of conflicts and confusion in the responsibilities of the Public Holdings and the CNP. Very often, the general manager of the public enterprise was confused about what to privatise in his/her enterprise. Under the influence of the CNP, he/she might propose to privatise a production plant wholly and under the influence of the Public Holding he/she might propose to privatise only part of it. This confusion slowed down the progress of privatisation and it was only since 2001 that the progress gained high speed.

C. Phase Three of Privatisation (2001- to the present). In this phase, privatisation became entirely the responsibility of the head of the government. This was, as it seems, to prove to investors, particularly foreigners, the strong commitment of the government to privatisation and to ensure them that all the necessary assistance would be provided to them and that their investments would be fully protected by law. Under the proposition of H. Temmar who was Minister of the Participation and the Coordination of the Reforms (MPCR), Ordinance no.01-04 dated 20 August 2001 was promulgated. For Temmar, privatisation should proceed fast and without any prior enterprise restructuring as was previously required under the Public

Holdings. To show the full commitment to privatisation and to accelerate the process, five government bodies were created to elaborate and implement the privatisation programmes. Three of these bodies were purely political and two technical as shown in figure 5.1.

Figure 5.1. Privatisation process after 2001



1. Keys: Communcation [→], Consultation [↔]

2. Source: Data analysis

The political bodies were represented by:

- *The Conseil des Ministres* (Board of Ministers), (CM). The *Conseil* was a body which elaborated the strategy and the programmes of privatisation and it was presided by the head of the government;

- *The Conseil des Participation de l'Etat* (Board of State Participation), (CPE). The *Conseil* was composed of 11 ministers and presided by the head of the government. It met at least every three months to monitor the progress of privatisation. The tasks of the CPE were to define the government strategy in the public sector and the programmes of privatisation and to evaluate and approve the reports from the different bodies in charge of the implementation of privatisation (*Ordonnance no.01-04,* 2001*).* When the government was the only owner or had a majority ownership in the public enterprise, the CPE assigned its representatives in the general assemblies of the public enterprises. Through its representatives, the CPE had direct intervention in the proposals for what to privatise and how to privatise. Its intervention was also carried out through its direct link with the *Societes de Gestion des Participations de l'Etat* (Management Companies for State Participations), (SGPs). The SGPs regularly submit reports to the CPE for evaluation on the valuation of the enterprises ready for privatisation, the assets and shares proposed for sale and the price set for the sale;

- *Ministère de la Participation et de la Promotion des' Investissements* (Minister of Participation and Investment Promotion), (MPPI). The MPPI was directly linked with the head of the government, the CM and the CPE. Its mission was to propose the strategy for the public sector, the enterprises to be privatised and all the mechanisms to be used in privatisation as well as the strategy for the promotion of investment. It was also responsible for the implementation of privatisation and investment by evaluating the reports submitted by the different organs in charge of privatisation and investment *(Décret Executive no.03-49,* 2003). The evaluation was often done with the help of experts recruited from the local market and from overseas. Once the evaluation and analysis were done, the MPPI sent a full report to the CPE and the CM for approval or amendment.

As for the technical bodies, these were represented by:

- *Sociétés de Géstion des Participations de l'Etat (SGPs).* The SGPs were accountable to the CPE and therefore the head of the government. They were joint stock companies. The SGP was controlled by a management board and a general assembly. The board was composed of three members who were nominated by the general assembly. The general assembly controlled all the SGPs and was fully composed of ministers. The SGPs were created to replace the Public Holdings. But unlike the Holdings, the SGPs did not have any property rights in the public enterprises. In 2002, there were 32

SGPs in existence where 4 operated at regional level and 3 at local level. Their mission was to manage on behalf of the government the properties the government owned wholly or partly in the public enterprises. Their task was to (CEGRO, 2003; CEBELEQ, 2004):

- Restructure the public enterprises in their portfolios to improve their performance;

- Propose what to privatise in these enterprises;

- Valuate the economic and financial health of these enterprises with the help of experts often from overseas;

- Work closely with the general managers of these enterprises to look for potential partners and negotiate the business deals with these partners;

- Act as the General Assemblies in these enterprises.

➢ *Commission de Contrôle des Opérations de Privatisation* (Control Commission of Operations of Privatisation), (CCOP). This body was under the authority of the head of the government. Its mission was to make sure that the whole process of privatisation was carried out in all transparency.

What Ordinance no.01-04 had brought was that it had abolished all previous legislations on privatisation. It did not make any distinction between one industry and another. All public enterprises, whether operating in strategic or non strategic industries, were listed for privatisation. It remains to say, however, that significant progress has been made since then in privatisation. Though enterprises operating in hydrocarbons and banking have remained until the time of writing this work still wholly state-owned, a mounting pressure from the IMF and the World Bank has recently been put on the Algerian government to proceed in the privatisation of enterprises in these industries and whether they will be privatised, only time will tell.

5.4.4.3. The Outcomes from Privatisation

Privatisation has its impact not only in reducing the size of the public sector but also in changing the behaviour of all social groups in society. And therefore, the outcomes drawn from privatisation should be looked at from two major dimensions: physical dimension to reflect the size of the public sector transferred to private ownership and the societal dimension to understand what impact privatisation had on those social groups which benefited a great deal from the centrally planned economic system and on the cultural structure of society.

A. The Physical Dimension. Though more than ten years since privatisation was first introduced in Algeria, privatisation still continued until the time of writing this work to form one of the major economic issue debated in the parliament. Between 1994 and 2003, the progress to privatise had been very slow but it started to speed up since 2004 though the IMF and the World Bank still found it not fast enough. In the second phase of privatisation, however, privatisation affected only medium and small public enterprises where the majority of them operated at local level. Out of a total of 1,324 enterprises operating at local level in 1994, by 1999, the five regional Public Holdings had managed to sell more than half or 935 enterprises. More than half of these or 486 were liquidated and bought by workers and managers through negotiations with the CNPE. The employee buy-outs created around 1,152 new enterprises creating as a result some 20,021 jobs. Almost a third of these newly created enterprises, or 156, operated in light industries like textiles, leather and building construction materials (MIR, 1999).

In most reports produced by the Public Holdings, the most favoured method of privatisation of small enterprises and production plants was employee buy-outs. This preference was based on the belief that by liquidating the enterprise and creating instead an enterprise owned and managed by the managers or workers, the new owners would be more motivated to increase the efficiency of the enterprise. In most cases, the liquidation of an enterprise was proposed by the general manager and workers in consultation with the Public Holdings (Holding Public Regional Centre, 1999). To encourage employee buy-outs, the government provided preferential deals to employees such as a 15 percent discount in the price of the asset for sale and the provision of loans to be repaid over a period of 20 years. Clearly, the government did not gain any financial revenues from the sale, rather it spent some 54 billion dinars to cover for the costs involved in the operations of liquidation and transfer of ownership, but it had gained the support of the UGTA. But employee buy-outs did not go as workers and managers expected. They were unable to secure credits from the banks so they could invest them in the modernisation of their enterprises to make them profitable. Without profitability, employees were unable not only to keep their newly created enterprises running and keep their jobs but also they found themselves unable to repay the loans the state treasury provided to them to purchase the assets. In addition, employees faced many property rights problems such as the difficulty to register their newly created enterprises with the Chamber of Commerce because the legal system to protect this type of enterprises was still not fully formed. The property rights system was also still not fully formed to protect investment transactions used in auction and bidding. When the list of 240 enterprises was published in the Executive Decree no. 98-195 dated 7 June 1998, the government administration hoped to see domestic and particularly foreign investors to participate actively in the process of privatisation. A first batch of 89 public enterprises was launched for privatisation between 1998 and 1999. But as table 5.2 shows, only 60 enterprises were sold and the participation of foreign investors was very small.

Table 5.2. The first batch of enterprises privatised and the origin of their new owners which was carried out by the CNP in 1998

Number of enterprises		**Number and origin of the new owners**	
		Domestic	**Foreign**
Water and drink production units	16	23	5
Brick production units	23	31	0
Hotels	21	35	1
Total	60	89	6

Source: Data analysis.

The participation of foreign investors started to increase only after 2001 when the political and macroeconomic conditions started to stabilise and more importantly when the government offered a lot of advantages to invest in Algeria such as exemption to pay taxes for ten years on equipments imported and used in the production, freedom to dispatch profits out of the country, protection against expropriation and the intervention of the government to settle any conflicts that might arise with their business partners and the full guarantee of their property rights. Investors of Algerian origin living overseas or residents in the country were also offered the advantage to pay only 30 percent of the purchase price in cash while the rest had to be paid over a period of five years. With the stabilisation of the macroeconomic environment and the various advantages provided to investors, the MPPI hoped that the 1,200 enterprises which it published in 2002 should be quickly privatised. Some 146 were large enterprises, 650 were medium and the rest were small. The large enterprises operated in iron and steel, electronics and mechanical engineering. All the large enterprises were privatised by the MPPI whereas the medium and small enterprises were privatised by the SGPs *(El Watan*, 23 May, 2005*)*. By 2007, the number of enterprises privatised was 417 where 192 were totally privatised, 44 had opened their capital to private participation and only 69 were sold to employees. Until the time of writing this work, the name of the enterprises sold and the origins of the new owners had not been disclosed either by the MPPI or by any other government departments. However, table 5.3 attempts to offer some information on the name of enterprises privatised since 1998, their method of privatisation and the origins of their owners.

Table 5.3. Enterprises privatised between 1998-2006

Privatised enterprises	Type of industry	Portion of the capital sold	Method used in privatisation	Objective sought from privatisation
El-Aurassi Hotel	Tourism	20%	Stock market	Funds
Eriad Sétif	Wheat processing	20%	Stock market	Funds
Sider El-Hadjar	Steel and Iron	70%	Participation of a block investor the Indian ISPAT	Technology and management know-how
ENAD	Detergents	100%	Participation of a block investor, the German Heinkel	Technology and management know-how
Division Tiaret of the SNVI	Mechanical engineering	65%	Participation of a block investor, the French BTK	Technology and management know – how
Saidal	Pharmaceuticals	20%	Stock market	Funds
		15%	Participation of a block investor, an Algero-Kuweity firm, El Faki	Funds
EMB	Metalic packaging	15%	Participation of a block investor, the German SNM Otto Wolf	Technology and management know-how
ENGI	Petrochemicals	60%	Participation of a block investor, the German Messer	Technology and management know-how
		40%	Participation of a block investor, the German Linde	
Relizane division of Eriad Tiaret Group	Wheat Processing	100%	Total ownership by the Algerian company Benabdellah	Funds
Mostaganem division of Eriad Tiaret Group	Wheat processing	100%	Total ownership by the Algerian company Chourkhaled	Funds
Cherchell division of Eriad Alger Group	Biscuit manufacturing	90%	Participation of a block investor, ülker Turkey Flash Algerie	Funds
Médéa division of Eriad Tiaret Group	Wheat processing	100%	Employee Buy-Out by El Akouas Company	Funds
Magnia division of Sidi Bel Abbas Group	Starch manufacturing	100%	Total ownership by the Algerian Mitidji Group	Funds
Sig division of Sidi Bel Abbas Group	Wheat processing	100%	Total ownership by the Algerian Mitidji Group	Funds
Mahdia division of Eriad Tiaret Group	Wheat processing	100%	Total ownership by the Algerian Majid company	Funds
Aissa Idir division of Eriad Alger Group	Wheat processing	100%	Total ownership by the Algerian la Belle Group	Funds

Source: Data analysis.

The table clearly shows the limited number of enterprises using public offering of shares as their method of privatisation. This limitation stemmed from the fact that most public enterprises listed for privatisation suffered from poor performance and also the institutional framework needed to make the stock market work efficiently was still missing in the country. One point worth mentioning here is the fact that during the third phase of privatisation, not a lot of jobs were lost as a consequence of privatisation. Around 12,000 jobs were saved and some 7,000 were created. But still, privatisation did not accelerate as hoped for in 2001. Until 2008, almost two-thirds of enterprises, which were listed for privatisation in 2002, were still unable to attract investors and only between 32 and 57 billion dinars (*El Watan*, 15 January, 2006) were generated from the privatisation sales. Looking closely to the free market environment in Algeria, there were still many constraints standing as obstacles to privatisation and amongst them were those social groups which opposed privatisation and looked at it as a blow to their future survival.

B. The *Societal Dimension.* One must admit that since 1990 a transition to the free market economic system has been in progress in Algeria. This progress was clear in the various changes that had taken place in the various aspects of the economic environment such as the installation of a number of the free market institutions and mechanisms, the expansion of the private sector through the participation of both domestic and foreign investors, and in the reduction in the size of the public sector. What is also interesting to say here is that the transition to the free market system and particularly privatisation has created a hard shock to the life of comfort enjoyed by many social actors in the Algerian society. The effect of the shock has manifested itself in the exposure of the government administration to the rising pressure of the anti-reformists to preserve the *status quo* particularly the protection of the public enterprise from privatisation and the mistrust of the majority of the population in the credibility of the government following the rising social problems created by the closure of many public enterprises and the disengagement of the government from the provision of many social welfare services.

- *The Rising Pressure of the Opponents of Privatisation.* Within the government apparatus, there existed divergence of views of what to privatise, to whom to privatise and especially whether or not to privatise. The opponents of privatisation were influential groups in the government administration and the national economic activity. These were retired army officers, ministers and public enterprise managers and many members presently working in the government apparatus, the army and public enterprise managers who still believed in the importance of the public sector in the economic activity though they admitted that the public enterprise should be opened to modernisation in its equipments and management to improve its performance (Interview with a retired PGM, Headquarters, UGTA, 2004). These groups saw the effects of privatisation from the national and self-interest perspectives. For them, privatisation meant an instrument that the pro-reformists inside and outside the country could use to reduce the power of the government and significantly to take away the sovereignty of the country (interview with the manager of Conflicts and

Social Affairs, Headquarters, UGTA, 2004). They feared that by selling the public enterprise to outside owners, and particularly to foreign investors, this would stop their control over the resources of the public enterprise and also diminish their power over the government apparatus since the private sector through time would grow powerful and would have influence in the political and economic orientations of the country. They also argued that by selling the public enterprise this would mean a massive reduction in the government revenues which for decades the state treasury enjoyed and this would never be compensated by the taxes that the private sector is required to pay since the fiscal system in Algeria was still inadequate and was costing the treasury billion of dinars as a result of the tax evasion practised by the private sector. More important, for the opponents of privatisation, after ten years since privatisation started, the domestic private sector had remained reluctant to invest in risky projects that add value to the national economic growth despite all the encouragement that the government had provided for this sector. Consequently, they had been active putting pressure on the government not to privatise the large public enterprises that they considered as the spinal cord to the life of the Algerian economy such as those operating in hydrocarbon and banking. They warned that if this would happen, it would be a major disaster on the whole structure of the Algerian society which would inevitably lead to a civil war like that experienced in the 1990s or worse (Interview with the manager of Conflicts and Social Affairs, Headquarters, UGTA, 2004).

- *The Rising of Social Misery in the Country.* Any country that reaches between 10 and 15 percent of unemployment, this rate is considered very bad for the country (CNES, 2005). But considering the rate of unemployment in Algeria which increased from 23 percent in 1993 to 30 percent in 1998, one would straight forward conclude that the situation in Algeria was not only bad but was a real disaster. Between 1994 and 2000, more than 500,000 workers were laid off or some 8 percent of the active population (CNES, 2005: 5) where some 58.5 percent were between 30 and 35 years old and 88 percent of them were married and with children to raise. These lay offs together with the rising number of first time job seekers had created not only a pool of young unemployed, which was estimated in 1999 to reach around 2.2 million, but also a pool of young poor. Poverty had been estimated to have touched some 23 percent of the population or around 6.4 million people where 70 percent lived in small towns and the rural areas (CNES, 2002). Though the government had provided schemes of assistance to reduce the problem of unemployment; especially among the youth with low academic achievements and no professional experience such as the *Programmes d'Emploi des Jeunes* (Youth Employment Programmes), (PEJ) which provided temporary jobs in public enterprises operating at local levels especially in industries such as building, forestry, farming and hydraulics, and the *Dispositif d'Insertion Professionelle des Jeunes* (Scheme for Professional Insertion of Youth), (DIPJ) which encouraged youngster to create micro-enterprises individually or collectively; the fact remained that only a limited number of youngsters benefited from the schemes. The reason was simply because the government lacked the institutional instruments to implement the schemes and significantly lacked enough funds.

The shortage in financial resources meant that the government was unable not only to manage unemployment but also forced to make huge cuts in its expenditures in social services such as education, housing and health care which made the lives of the majority of the population worse. The huge cuts led to a dramatic deterioration in the management of these services and consequently the private sector increased its participation in the provision of these services. There was an explosion in the number of private medical clinics, private housing companies and private schools. These private social services were expensive and therefore only those who could afford used them. The majority of the population had to use the services still controlled by the public sector which were of low quality. The public hospitals, for example, suffered from obsolete equipments, continuous interruption in medicines and were staffed with inadequate skills because the majority of professionals with high competence had left to work in their own medical care clinics or went overseas particularly to the developed countries like France, Canada and the USA to look for better life. The same can be said with those competent professionals in education and also in most other industries in the country.

The disengagement of the government from the economic activity as dictated by the two Programmes for Structuring Adjustments meant primarily that the government had to leave the free market mechanism dictating the prices of goods and services. Though the salaries of workers in most industries were raised only slightly since the transition, the prices for all goods and services including for goods such as milk and bread were raised sharply and this made the majority of the population in front of serious difficulties to make end meets. According to a survey carried out by the CENEAP (2000) of a sample of 2,000 peoples, about 56 percent of people in the sample had either reduced or given up since 1993 consuming food such as meat and fruits and two-third of them had to borrow from family, friends and the banks when it concerned buying medicines or using the health care facilities. With the spread of poverty among a large segment of the population, the country had seen an increase in what is commonly known as the diseases of the poor such as cholera, diphtheria, tuberculosis, typhoid, stress and depression and also an increase in the dissolution of moral values. As a measure to replace the free medical care services which were in practice since 1974, the government has introduced since 1992, the social assurance system. In 2000, around 87.4 percent of the population or some 30 million were covered by the system. But the problem remained that many felt that the prices of medicines were beyond their financial means and they had to wait weeks before they would get the refunds from the social assurance agency, the CNAS. The CNAS was allowed to make 100 percent refunds only for medicines which were considered of high therapeutic importance and which were very expensive because they were imported from the developed countries. The cheap medicines which were predominantly produced by local pharmaceutical enterprises were refunded only 80 percent. In addition to this health measure, the government has also created special funds to assist financially the rising numbers of associations which dealt with the rising number of youngsters taking drugs and alcohol, the rising number of abandoned children and old aged men and women and the large number of orphans which were the result of terrorism. In fact the rising poverty in Algeria had given an explosion in the number of crimes and in the number of dysfunctional families as a result of the rising number of divorce especially among young couples (for more detail on the rising social problems in transition in Algeria, see CNES, 2002).

5.5. Conclusion

Clearly, after nearly two decades since the free market system was introduced to Algeria, the public sector remained the dominant producer for the national economy with the hydrocarbons still the major source of the government foreign revenues. The early years of the transition to the free market had, indeed, created serious economic and social problems. Though the macroeconomic environment started to show signs of stabilisation since the early 2000's, the national economic growth remained low still with heavy reliance on imports. The privatisation of medium and particularly of large state enterprises was also progessing very slow and their restructuring still remained a major issue in both the management and government debates. The kind of restructuring taking place in these enterprises was until the time before carrying out this research study unknown. In this study, attempts had been made to highlight the kind of restructuring behaviour and its determinants in the Algerian enterprise through the experience of three large state enterprises slated for privatisation operating in different manufacturing industries. The next chapter will discuss the methodology used to investigate these three enterprises.

Chapter 6

Research Methodology

6.1. Introduction

The question raised in chapter three required a focus on the restructuring actions undertaken by the state enterprises slated for privatistion in Algeria as they were challenged with the dilemma of survival and transformation in the transition to the free market economic system and also on the forces leading or impeding their restructuring. This chapter discussed the methodology followed in data collection and analysis to answer the question. A brief discussion on the approach to research methodology in social sciences was given first. This was followed by a detailed discussion on why the topic was chosen, what research strategy, methods and techniques were used in the collection and analysis of data, what problems were encountered during the data collection, and finally the historical backgrounds of each enterprise chosen for this research.

6.2. Approach to Research Methodology in Social Sciences

Methodology, according to Silverman (2000: 79) could be defined as "How one will go about studying any phenomenon". In social science research, two types of research strategies have predominated: the quantitative strategy and the qualitative strategy. The divide between the two strategies was based on epistemological and ontological considerations. These considerations looked to the social world from different perspectives and therefore researchers, as discussed below, used different methods in their data collection and analysis.

6.2.1. The Quantitative Research Strategy

This strategy was based on an epistemological tradition called ‘Posivitism’. Neuman (2006: 81) broadly defined ‘Posivitism’ as “The approach of the natural science”. Positivism – there are a variety of positivist schools such as logical empiricism, the accepted or conventional view, postpositivism, naturalism, the covering law model, and behaviourism - arose from the nineteeth century school of thought by the Frenchman Auguste Comte (1798-1857) who founded sociology. In his major work entitled ‘The Course of Positive Philosophy’, Comte outlined the principles of posivitism which are still used until today. His principles were later modified by the British philosopher John Stuart Mill (1806-1873) in his work entitled ‘A System of Logic’ and by the French sociologist Emile Durkheim (1858-1917) in his work ‘Rules of the Sociological Method’. Durkheim’s Rules have become the main textbook for positivist social researchers (Neuman, 2006: 81).

For Neuman (2006: 86), the positivist philosophy carried the following assumptions:

1. The ultimate purpose of research is to discover and document universal causal laws of human behaviour;

2. Social reality is not random. It is patterned and has order. Science let human discover this order and the laws of nature;

3. Basic patterns of social reality are stable and knowledge of them is additive. The regularity in social reality does not change over time and laws discovered today will hold in the future;

4. People respond to external forces that are as real as physical forces on objects. According to Durkheim "Social phenomena are things and ought to be structured as things";

5. It looked at how external force, pressures, and structures that operate on individuals, groups, organisations or societies produce outcomes it downplayed on individual subjective or internal reasons and any sense of free choice or volition. This is to say that powerful social pressures and situations that operate on people to shape most if not all of their actions;

6. Positivism tried to learn about how the social world work to enable people to exercise control over it and make accurate predictions about it;

7. It sees science as a special, distinct part of society that is free of personal, political or religious values. It involved applying strict rational thinking

and systematic observation in a manner that transcends personal prejudices, values and bias".

Generally speaking, the proponents of positivism looked at the social world from the natural science perspectives. Accordingly to Keat and Urry (cited in Neuman, 2006: 82) "There is only one logic of science, to which any intellectual activity aspiring to the title of 'science' must conform". Based on this logic, the positivist researchers used the measurement of people and institutions as the only way to produce an acceptable knowledge. They were preoccupied, Bryman (2000: 8) argued "To deduce from what is known about a particular domain and of theoretical considerations in relation to that domain a hypothesis (or hypotheses) that must be subjected to scrutiny". This scrutiny could be carried out by any of the five methods such as a social survey, experiment, official statistics, structured observation, and content analysis, and the findings of the research were evaluated, according to Bryman (2004: 28), on three criteria:

a. Reliability. To see whether the measures designed for the concepts were consistent;

b. Replication. To see whether the procedures that constitute the measures used in data analysis could be replicated;

c. Validity. To see whether the constructs used to measure the concepts were consistent (measurement validity); whether one variable caused

> the variation of another variable (internal validity); whether the findings of the research could be generalised beyond the specific research context (external validity); and whether the social settings from which the date was collected had been contaminated by the interference of the research scientist (ecological validity).

However, the dependence on purely quantitative methods and neglecting the social and cultural construction of the variables had put researchers using quantitative research strategy to criticism.

6.2.2. The Qualitative Research Strategy

Researchers using quantitative research strategy had been criticised for their dependence on purely quantitative methods. This dependence, Silverman (2000: 6) argued, “May neglect the social and cultural construction of the variables which the quantitative research seeks to correlate”. Critics to quantitative research strategy came from a philosophical tradition called Interpretism’. Interpretism - there are a variety of interpretive social schools such as hermeneutics, constructionism, ethnomethodology, cognitive, idealist, phenomenological, subjectivist, and qualitative sociology – can be traced to the German sociologist Max Weber (1864-1920) and the German philosopher Wilhem Dilthey (1833-1911). Weber felt that (cited in Neuman, 2006: 87) “We must learn the personal reasons or motives that shape a person’s internal feelings and guide decisions to act in particular ways”. On similar lines of thought, Wilthey argued that there were two different types of science. The one based on abstract explanation and the one based on an empathetic understanding or *Verstehen* of the everyday lived experience of people in specific historical settings. Neuman (2006) summarised the goal sought by the interpretive philosophy as to:

1. Develop an understanding of social life and to discover how people construct meaning in natural settings;

2. The human social life was intentionally created out of the purposeful actions of interacting social beings. Therefore, the social world was largely what people perceived it to be;

3. People were engaged in an ongoing process of creating systems of meaning through social interaction. Then they use such meanings to interpret their social world and make sense of their lives;

4. Evidence about social actions cannot be isolated from the context in which it occurs or the meanings assigned to it by the social actors involved.

Based on these philosophical views, the interpretists, according to Bryman (2004: 13), “Share the view that people and institutions are fundamentally different from the natural sciences and they assume that the social scientist should interpret the actions of people and their social world from their point of view”. Accordingly, researchers using interpretive principles were often called qualitative researchers. They collect and analyse data by using words rather than numbers. They would use one and often several methods to understand the social world. These were: ethnography/participant observation, qualitative interviewing, focus group, language-based approach such as conversation analysis and discourse analysis, and the analysis of texts and documents.

The main preoccuptation of qualitative researchers was to generate a theory out of the collection and analysis of data, though this was not always the case. "There are examples", Bryman (2004: 20) argued, "of studies in which qualitative research has been employed to test rather than to generate theories". In addition, though the findings of a qualitative research were evaluated on their validity and reliability, these two criteria were quite different from those used in quantitative research. Lincoln and Guba (cited in Bryman, 2004: 273) proposed that "The assessment of a qualitative study should be based on trustworthiness and authenticity. Trustworthiness was based on five criteria: credibility, transferability, dependability, and confirmability. Authenticity was also based on five criteria. These were: fairness, ontological authenticity, educative authenticity, catalytic authenticitiy, and tactical authenticity. In general, qualitative research was:

-Concerned with words;

-Inductive where theory was generated from data;

-Interpretive;

-Had an ontological position described as constructivism which assumed that social properties were the outcomes of the interaction of individuals, not seperated from this interaction.

However, qualitative research strategy was criticised for being subjective, difficult to replicate, very difficult to generalise and lacked transparency. But though qualitative and quantitative were two distinct research strategies in terms of the role of theory and their epistemological and ontological positions, the distinction, according to Bryman (2004: 21), "Is not hard-and-fast one...Studies that have the broad characteristics of one research strategy may have a characteristic of the other...Many writers argue that the two can be combined within an overall research project". The combination of quantitative and qualitative methods into the research methodology of a single study is what was called triangulation. Methodological triangulation, according to Creswell (cited in Tashakkori and Teddlie, 1994: 18), "Could be carried out in one of the four forms:

-The researcher first conducts a qualitative phase of study and then a quantitative phase;

-The researcher conducts the qualitative and quantitative phase at the same time;

-The researcher conducts the study using both the quantitative and the qualitative approaches about equally to understand the phenomenon under study;

-The researcher conducts the study within a single dominant [paradigm] with a small component of the overall study drawn from an alternative design".

In conclusion, using one research strategy or combining the two depends on the nature of the topic and particularly on the question(s) that the researcher seeks to answer.

6.3. The Research Methodology Followed in this Study

6.3.1. The Reason for Choosing the Topic

Being interested in the economic developments of Algeria, it was clear from the many reports published by the Algerian national newspapers that the association with the European Union in 2002 and the prospect of Algeria being a member of the World Trade Organisation should urge the Algerian state and privatised enterprises to restructure effectively in order to be able to compete. This stimulated my interest to carry out a research study on enterprise restructuring in Algeria. At this time, my interest focused to find an answer to the question of: How much the internal management of the giant oil state company SONATRACH had deviated from the socialist management style and became competition-oriented? The research was supposed to compare SONATRACH management style with a multinational firm such as BP or Shell. Since SONATRACH was still wholly owned by the government, a literature review on the organisational behaviour of the public enterprise in the market and planned economies was made during 2002 and 2003. Review of strategic management and organisational behaviour literature in private firms was also made. The dimensions to measure the organisational behaviour of SONATRACH were borrowed from the work of Stalker and Burns (1961), Lorsch and Lawrence (1967) and, in particular, from Khandwalla (1977). In the summer of 2003, a visit was made to the head office of SONATRACH in Algiers to ask managers in the different departments to participate in the research but unfortunately they all declined. As a result, changes were made in the research track. This time the focus was made on the manufacturing enterprises slated for partial and total privatisation. The government considered that privatisation was too slow and the law of privatisation of 2001 was supposed to speed up privatisation and therefore enterprises had to restructure to get rid of unproductive assets, to concentrate on assets with competitive potentials, to introduce modern technologies and market-oriented management procedures. The research started with the search for any published work on enterprise restructuring of the privatised enterprise in Algerian and Western information sources and fortunately none existed which consequently made my enthusiasm stronger to carry out the research. The literature on enterprise restructuring and its determinants in a transition context was reviewed in 2004. Research on this topic had focused almost exclusively on the ex-communist countries. Enterprise restructuring in other countries which had moved to the free market system at almost the time as the ex-communist countries had been neglected by researchers. This neglect had, indeed, increased my determination to carry out the research on enterprise restructuring in the state enterprises slated for privatisation in Algeria. In the summer of 2004, my research data collection and analysis started.

6.3.2. The Research Strategy Followed

Algeria is a country different from the ex-communist countries in terms of its cultural values and social structure and in terms of its political and economic developments in pre and post transition. Therefore, one would expect that these characteristics would have impact on the restructuring behaviour of the state enterprises slated for privatisation and the determinants of this behaviour. The research started with a broad question, as already mentioned in chapter three, which was: What kind of enterprise restructuring and its determinants one would expect in the Algerian state enterprises slated for privatisation, given the facts that Algeria is a country different from the ex-communist countries in terms of its cultural and social structures and in its political and economic developments in pre and post transition? To answer this question, a combination of qualitative and quantitative research approach was used. Since the restructuring actions were constructed by the individuals in direct and indirect links with these enterprises, the interpretation of these actions by these individuals was very important and therefore a qualitative research strategy was a suitable strategy to use. Also, since the purpose of the research was to test whether the Algerian cases investigated in this research would exhibit enterprise restructuring and its determinants similar or different from those experienced in the ex-communist countries, the research was inductive. In addition, as the replacement of top managers in the enterprises slated for privatisation would form an important part in their restructuring actions, a survey was used to explore the extent of changes taking place in the charactetistics of these managers. The research also used primary materials such as state, private company and media reports. Generally speaking, though the research was qualitative, inductive and interpretative in its nature, it was complemented by quantitative methods in order to answer the research question.

6.3.3. The Research Design Chosen

This is a case study. Yin (2003: 13) defined a case study as "An empirical enquiry that investigates a contemporary phenomenon within its real-life context especially when the boundaries between phenomenon and context are not clearly evident". A case study could be an individual, a group, an organisation, a social or political phenomenon. Researchers using case studies could use a mix of quantitative and qualitative methods to explore, describe or explain phenomena and situations. The choice, Yin (2003: 6) explained, between case study, survey, experiment, archival analysis and histories should be based on the types of research questions. According to him, if the research questions were of the type 'What' questions and the goal of the researcher was to develop pertinent hypotheses and propostions for further inquiry, the researcher should make a decision to conduct an exploratory study using any of the three methods: a survey, an experiment or a case study. If on the other hand the goal of the researcher from the 'What' questions was to idenfity the outcomes a survey or an archival analysis would be more suitable as research methods than a case study. Survey and archival analysis would be also suitable in research guided by 'Who' and 'Where' questions especially when the goal of the researcher was to describe the incidence or prevalence of a phenomenon or when it was to be predicted about certain outcomes. A case study design was often used when the research was guided by 'Why' and 'How' questions because such questions dealt with operational links needing to be traced over time rather than mere frequencies or incidence.

This research was guided by a 'What' question in which the goal was not only to develop an understanding on the restructuring behaviour of the enterprises slated for privatisation and the determinants of this behaviour but also to put forward some propositions for future investigation on the topic. Therefore, a case study design was the most suitable. This design would allow an intensive examination of these enterprises through the participation of their managers, close observation of their settings, and examination of their internal documents.

However, at the begining of the research investigation the intention was to explore enterprise restructuring and its determinants in three enterprises slated for privatisation operating in the same industry to see whether there was any pattern in their restructuring behaviour. The investigation started by consulting the directory of all enterprises slated for privatisation published by the ministry of industry. It was decided to choose three enterprises from any of the three industries: The iron and steel, the clothing, or the wheat processing and manufacturing. These industries had enterprises operating and serving the customers in three main regions of the country: central, eastern and western. It was planned to select one enterprise from each region. The historical development and performance backgrounds of the three industries were reviewed. Before starting the investigation, however, a visit was made to some of the researchers specialised in economic and organisational development in Algeria located at the *Centre National d'Etudes et d'Analyses pour le Plan* (The National Centre of Studies and Analyses for Planning), (CENEAP), and at the *Centre de Research en Economie Appliqueé pour le Developpement* (The Research Centre in Applied Economy for the Development), (CREAD), to get some tips from them on how to get an easy access to these enterprises. Some of the researchers at the CENEAP advised that the timing was not right to do research in these enterprises since many of them were preparing themselves for privatisation and it would be hard to get their participation in the research. Despite this disappointing advice, a visit was made to the ministry of industry. The security at the main gate was very tight. A visitor had to explain the reason for the visit and to name the person the visitor wished to see. Despite the purpose of my research was explained to the security it was not possible to see any manager of any sponsoring department of the three industries selected for the research. Instead, the security oriented me to the documentation centre. My visit was welcomed by the manageress of the centre but still no access was made to any manager of any sponsoring departments. In fact, the manageress advised that researchers should arrange themselves the appointments to see the managers of the privatised enterprises they wanted to investigate. The manageress was very helpful by providing me with some documents and allowed me to use freely the library in the centre. Most of the documents in the library were out of date with the exception of the government official journal (*Journal Official de la République Algerienne)*, which publishes the government laws and the government appointments of senior managers in the public sector, and documents on the transition policies published by the ministry of industry. Some of the documents collected from the documentation centre were used in this research to cover the political and economic backgrounds of Algeria in pre and post transition. After a month going back and forward to the ministry of industry, not a single contact was made with any manager in the sponsoring departments. One morning, however, a bit of luck appeared. A neighbour of mine, not seen for years, was on her way to enter the building of the ministry of industry and it was her who opened the door for my research to progress. She worked as the main secretary in the office of the manager in the sponsoring department for food industry to whom she explained the purpose of my research. The manager was happy to help and introduced me as one of his relatives to the managers of the sponsoring departments of steel and iron and clothing industries. Despite the letters of recommendations given to me by the managers, only the enterprise VETCO in the clothing industry and Eriad Alger in wheat processing and manufacturing industry agreed to participate. With these disappointing results, the choice of enterprises that should participate in my research had to change again. This time, it was decided to select three enterprises operating in different industries but with different financial performances. The many reports of the national newspaper *EL Wat*an indicated that Saidal was growing fast in terms of its financial performance and its shares of the domestic market. Eriad Alger was losing markets and in heavy debts and the SNVI was growing at a slow pace. Again, the manager of food industry had to introduce me to the managers of the sponsoring departments of pharmaceuticals industry and mechanic and metallic industry. Though Eriad Alger was investigated during the summer of 2004 and of 2005, the participation of Saidal was very hard to get despite the letter of recommendation given to me by the manager in the sponsoring department of pharmaceuticals. Its participation was possible only when the senior manager in the department of conflicts and social affairs at the headquarters of the UGTA, who was very participative in my research, intervened by giving me a letter to hand over to the secretary in the head office of Saidal located in the town called Dar El-Beida. The participation of Saidal was in the summer of 2004. As for the SNVI, despite the letter of recommendation from the manager of the sponsoring department of mechanic and metallic, my several visits to the enterprise head office located in the town of Rouiba, during the summer of 2004, did not yield any result. The secretary in the office always apologised that her boss was either in meetings or outside the enterprise. It was only in the summer of 2005, and after many visits, while waiting in the reception room, the manager of the technical department and the manager of the human resources department came from a meeting room and there my meeting was made with these two managers and the purpose of my research was explained to them. Fortunately, they accepted to participate in my research and had facilitated my access to other managers in the enterprise.

6.3.4. The Collection and Analysis of Data

The research had a clear focus. It investigated enterprise restructuring and its determinants for the period 1990 to 2005. It used a combination of methods used to collect data. These were: interviews, a survey, and primary documents.

6.3.4.1. Interviews.

This method was chosen because the interest was to obtain the point of views of the interviewees and also it was flexible in a sense that the interviewers, Bryman (2004: 320) argued, "Can depart significantly from any schedule or guide that is being used. They can ask new questions that follow up interviewees' replies and can vary the order and even the wording of questions". This meant that it allowed me to ask questions of introducing, follow-up, probing, specifying and interpreting natures. The broad question that guided the research was broken down into seven categories. Each category contained a number of questions. The questions were developed from the case studies of Estrin *et al*., (1995) and Brada and Singh (1999), from the works of Hendley (1998), Laszlo and Whitley (2000), Linz *et al*.,(2001), Clark *et al*., (1998), Carlin *et al*., (1995), the cross-country survey of the EBRD (2000), the survey of Carlin *et al.*, (2001), the survey of Muent *et al.*, (2000), and from the question guide that was previously developed to study SONATRACH. The questions were asked in the form of semi-structured interviews to allow the cross-case comparability. Interviewees were asked to give a brief history of the enterprise, the ownership structure of the enterprise, the nature of industry in which the enterprise operated,, the extent of competition, the product market strategy, the organisational structure, and employment policies. The questions included in these categories are found in Appendix A.

Purposive sampling was used to select the individuals to be interviewed. These individuals were selected on the basis of their direct involvement with the restructurig actions taking place in their enterprises. These were the chief executives, the general secretaries, managers of divisions and of functional departments. Managers in the functional departments were selected from the departments which had direct involvement in the corporate strategic decision makings at the head office and division levels. These were the planning, marketing, finance, research and development, production, and human resources. Thirty nine managers were interviewed through semi-structured interviews. Eriad Alger was the first enterprise to be investigated. Transcription was made after each interview. Since most of the managers were very participative, this allowed me to go back at any time and ask them for more explanations on issues that were not explained during the interviews. As a result, the semi-structured question guide was reconstructed and used later with Saidal and the SNVI.

To cross-check the data collected from the three enterprises, other sources were also used. These were in the form of state, private company and media reports and also individuals that had some links with these enterprises. Therefore, managers of the sponsoring departments of the three enterprises located at the ministry of industry, managers at the UGTA, managers at the state consultancy organisation, CNAT, and workers from the three enterprises were selected to be interviewed. Interviews were carried out with two managers in the sponsoring departments, two managers at the CNAT, three managers at the headquarters of the UGTA, six workers where three were from Eriad Alger, one from Saidal and two from the SNVI. These workers were met at the department of conflicts and social affairs at the headquarters of the UGTA. In this office, interviews were also carried out with one retired President General Manager from the enterprise called Giplait and a manager who was sacked from the public holding called CABELEQ. The interviews with these participants were unstructured interviews. The interviews were tailored to develop an understanding of the positive and negative effects of the transition on the state and privatised enterprises in the country, with reference to the three enterprises investigated in this research, and many issues related to their internal management. Managers were asked on issues such as the extent of control of the government in the management of the state and privatised enterprises; how managers in the enterprises and government adminstration were recruited, evaluated and compensated; the level of education of senior managers in the enterprises and the kind of training they took since privatisation; the kind of problems that existed between enterprise senior managers and the government representatives in the enterprises; the kind of changes that took place in the recruitment and compensation of workers and their participation in the decision makings of their enterprises; the kind of relationships that existed between the management of the three enterprises of the study and the UGTA; the categories of workers affected by the sale of assets and the types of worker welfare services that were abandoned and those that still remained; the kind of problems that existed in the institutional environment; their positions towards privatisation; the importance of the public sector in the government policies; the role of the public holdings in restructuring; the kind of investments made in the privatised enterprises with reference to the enterprises under investigation; and the kind of policies that the govenment should put in place to make the state and privatised enterprises more competitive.

In total, fifty four semi-structured and unstructured interviews were carried out in this research study. As mentioned before, each interview was transcribed right away (see a sample of a transcribed unstructured interview in Appendix B) and read several times to generate new issues not covered by researchers on enterprise restructuring in the ex-communist countries. The transcription also allowed me to make a liste of documents that should be used to cross-check the information given in the interviews and also information needed in the data analysis. Many visits were made as a consequence to collect more data from some already interviewed managers at Eriad Alger, particularly the general secretary at the head office, managers in the UGTA and the CNAT and the manager in the sponsoring department for food industry. Unfortunately, not a single manager that was previously interviewed at Saidal and the SNVI was ready to be interviewed again. The new issues raised by the interviewees that had impact on restructuring were counted and tabulated as shown in table 6.1 below.

Table 6.1. Frequency of new issues affecting restructuring raised by interviewees.

New issues raised	Number of of interviewees (n=54)
-Impact of civil war on production and productivity.	9
-Impact of civil war on technical drain.	21
-Rejection of Western investors holding large stakes in the privatised enterprises.	16
-Suspicion about the Programmes for Structural Adjustments imposed by the IMF and the World Bank on Algeria and suspicion about firms from Western Europe to Invest in Algerian economy and Algerian enterprises	12
-Partnership without share ownership with foreign investors welcomed	42
-Recruitment, promotion and reward of managers and workers based on family, freinds and regional ties.	14
-Avoiding laying off workers based on religious brotherhood and customs grounds.	18

Source: Data Analysis

Most interviews were tape recorded but some interviewees refused to be interviewed through tape recorder and preferred instead notes taking. Also, some interviewees who were tape recorded required to remain anonymous. The taped interviews lasted between half an hour and two hours. As for the unstructured interviews, some of these interviews lasted for many hours. At the headquarters of the UGTA, for example, the interviews took sometimes the whole working day as a result of interviews being interrupted by phone calls or by people who came to solve their conflicts at the UGTA. In fact, the manager of the department of conflicts and social affairs allowed me to sit in his office and observe the different matters and problems his department dealt with. This gave me the opportunity to meet workers and enterprise trade union representatives of different enterprises including the enterprises included in my investigation and discuss with them some of the issues related to my research. All the interviews with the directors at the ministry of industry, managers of the CNAT and managers of Eriad Alger, Saidal and SNVI were carried out in French language. But with the managers of the UGTA and other interviewees met at the UGTA, most of the interviews were in Algerian language, a language which is a combination of French, Arabic and sometimes Berber words. All the interviews in French and Algerian languages were back translated into English.

6.3.4.2. The Survey.

In contrast to all previous research on management replacement in the transition countries, management replacement in this study was investigated by looking at the characteristics of the top management teams of the three enterprises. The link between top management characteristics and organisational outcomes – strategic choices and performance (Hambrick and Mason, 1984) and between top management characteristics and corporate strategy change (Wiersema and Bantel, 1991) were well documented in strategic management literature. Measuring this concept in this study would capture whether the three enterprises had introduced new blood of managers with market-oriented skills. According to Hambrick and Mason (1984), older managers and managers who had functional track in production and process engineering would be less inclined to take risky investment and be competitive, would prefer the status quo and would be concerned with their career and financial security. Measuring this concept would also test the claims made by authors like Ivancevich *et al.,* (1992), Avraham (1993), Luthans *et al.,* (1993), Pribova and Savitt (1995), Shipley *et al.,* (1995) and Savitt (2001) that managers from the socialist period would find it difficult to follow a competitive strategy as they were less equipped with skills required in a competitive market.

Since there was no published data available on the characteristics of the top management teams in the three enterprises and since numerical data would be required to measure the concept, a survey was used. The measures used to gauge the top management characteristics were adopted from the propositions advanced by Hambrick and Mason (1984). The authors proposed to measure five dimensions. These were:

1. Age. It was assumed that younger managers would lead the corporate to growth and risky investments. By contracts, older managers would be less able to grasp new technologies, would have greater psychological commitment to their enterprise and their status quo and were more concerned with their career and financial security.

2. Formal education. Education was assumed to reflect the person's knowledge and skills. For example, a person educated in engineering would have a cognitive base different from someone educated in history or law. This cognitive base would affect the strategic orientations of the managers.

3. Functional track. Experience developed in some functional areas would exert some influence on strategic choices. The authors proposed that managers coming from marketing, research and development, sales and production would emphasis corporate growth and the search for new oppurtunities whereas those coming from production, process engineering and accounting would emphasis strategies at improving the efficiency of the transformation process.

4. Career experience. It was suggested that the chief executives officers brought from outside the corporation would make changes to the structure, procedures and people more than those promoted within the corporation because they would be less committed to the status quo and would have the desir to create loyal 'lieutenants'. It was also suggested that executives who spent their entire career in one organisation would have a relatively limited perspectives to face intensive competition or a radical technological shift. Their in-depth industry familiarity would serve best a market with stability.

5. Socio-economic backgrounds. It was suggested that gender, social status and religious and regional belonging would affect the strategic orientations of top managers. It was assumed that managers from disadvantaged

backgrounds would pursue aggressive strategies in their markets in order to achieve recognition and esteem.

A self-completion questionnaire was constructed to measure the five dimensions. The questionnaire was piloted at Eriad Alger. It was distributed to seven low ranked managers at the production plant called Aissa Idir. Some managers required that they would fill in the questionnaire in my presence to explain to them anything they found it difficult to understand. It was very clear that the questions which measured their social status and their regional belonging made them uncomfortable. Some managers asked “I do not see any sense to know whether I come from rich or poor family and from which region I come from” and some did not even attempt to answer these questions. These two questions were dropped from the questionnaire. The respondents were also confused to answer the question which asked to show the number of years spent in different functional departments. The categories, showing the range years, overlapped such as 0-1, 1-2, 2-3 and so forth. This question was reconstructed using a four years interval for each category. The final version of the questionnaire looked like the one in Appendix C. It included fourteen questions. The age variable was grouped into categories with ten years interval to make it easy during the analysis. The formal education was gauged by question 3 and 4; the career experience by question 6, 7, 8, 9, 10, and 12; the functional track by question 11 and 13. As it was expected that the management teams should have undergone some training and development in competitive-oriented skills, question 14 was included.

The questionnaire was distributed to the respondents at Eriad Alger, Saidal and the SNVI using non-random sampling, using quota sampling. The respondents were selected based on their direct influence in the strategic decisions of their enterprises. These were all the president general managers, the general secretaries, the division managers and the senior managers in the marketing, research and development or equivalent, finance, human resources management, production, and planning departments. From reading the organisational diagrammes of Eriad Alger, Saidal and the SNVI, one hundred and eleven managers were supposed to fill in the questionnaires. Only seventy nine were filled in and returned or 71 percent. The questionnaire data was analysed using a univariate analysis. Since it was a comparative case study, one variable was analysed at a time. A frequency tables were used providing the number of managers and the percentages belonging to each variable in question.

6.3.4.3. Primary Documents

Primary documents in the form of quantitative data to evaluate the restructuring actions of the three enterprises were used. These were financial and operational performance data such as the annual sale revenues, added value, net profit after taxe, cah flow, and total and partial productivity. The data on the sale revenues and the partial productivity were available for all the three enterprises. As for the rest of the data, it was available only from Eriad Alger and Saidal but not from the SNVI.

Primary documents also included published records of the three enterprises such as annual reports, board of directors reports, functional department reports, internal regulation manuals, collective bargaining manuals, private correspondances between the President Geneneal Managers and managers in divisions and functional departments, private correspondances between managers of the different functional departments; selection and recruitment reports of PGMs; private correspondences between the UGTA and the heads of the government, private correspondences between trade union representatives, workers and the public holdings.

6.3.4.4. Secondary published materials.

These included from official documents to media reports to standard books and articles publications written in French, Arabic and English. These documents provided the basis for a great deal of political, economic and social developments in Algeria in pre and post transition and also of the restructuring taking place in transition countries which served as a background of restructuring and its determinants in transition economies.

6.3.5. Problems Encountered during the Research

This research did not go without problems. The first problem was, as mentioned above, the difficulty to get access to the enterprises to be investigated. At the beginning of the research, the intention was to gather information from all parties involved in the decision making process in each enterprise selected in the research. This meant that the research should have involved the manager of pharmaceutical department, the manager of the food industries and the manager of mechanic and metallic industries located at the ministry of industry, the general manager of the public holding of Eriad Alger called CEGRO and the PGM of each enterprise and all managers of the divisions and the functional departments. Though two interviews were carried out with the manager of the food industry and of the mechanic and metallic industry, and most managers at different levels of each enterprise under investigation, unfortunately, the general manager of CEGRO was reluctant to participate in the research. When first met in his office, he agreed to participate in the research, but when he was asked to make an appointment so an interview would be carried out with him, he declined. After many phone calls to his office, his secretary apologised and gave the excuse either her boss was not there, or in a meeting. After weeks of trying, his secretary finally told me that her boss was not ready to participate. And when asked whether it would be possible to use their documentation resource department to collect some published data, the answer of the secretary was negative too. Even at Saidal and the SNVI, the secretaries at their head offices were not at ease when asked to use their documentation resource departments. By contrast, Eriad Alger provided me with some of their internal documents. But to get hold of some of Saidal's and the SNVI's internal documents, their workers who were interviewed at the UGTA were asked for help. One worker of Saidal provided me with the internal regulation document of the enterprise. However, the managers at the UGTA provided me with the majority of the documents used in pre and post transition of Algeria and the internal documents of the enterprises investigated in this study. They provided me not only with the internal documents such as the internal regulation manuals of the SNVI and Saidal, their collective bargaining manuals, some of their annual reports but also some annual reports of CEGRO and other public holdings and even some private correspondences between the UGTA and managers of the enterprises involved in the research and managers from other public enterprises and correspondances between the UGTA and the heads of the government. Documents on the public holdings and on the SGPs were also provided by the manager who was sacked from the public holding CABELELQ. These documents together with the documents of the different internal regulations of the UGTA and the UGTA's different stages of development since independence reinforced my understanding of the internal functioning of the UGTA and its participation in the transition period and also the internal functioning of the three enterprises of this study and most public and privatised enterprises in the country.

6.4. The Historical Background of the Three Enterprises

Before moving to the next chapters, it is best to give a brief introduction on the general characteristics of each enterprise included in the research and the nature of the industry in which each enterprise operated.

6.4.1. Saidal

Saidal was the major pharmaceuticals producer in Algeria. The pharmaceuticals industry in which Saidal operated is Research and Development intensive and therefore very costly. In most countries, this industry is highly regulated in terms of price, raw materials and finished products conditioning, marketing techniques and approval procedures. In this industry, there are two types of pharmaceuticals manufacturers in existence and which compete with each other: The manufacturers which develop the products in their own Research and Development laboratories and manufacturers which produce generics - that is to say products based on the expired patents of major drugs. Because the pharmaceuticals industry is very competitive and both manufacturers have always customers for their products, they often make high profits.

With the continuous growing population in Algeria which was growing in recent years at a rate of 3.5 percent per year, both original and generic products had no constraints to find customers. Saidal was a generic manufacturer, created in 1985. Before Saidal came into being, the *Pharmacie Centrale d'Alger* (Central Pharmacy of Algiers), (PCA), was the only state-owned producer for pharmaceuticals. The PCA was created in 1963 from the nationalisation of the French company Biotic which was created in 1952. The PCA was among the first enterprises in the country to be transformed into a socialist enterprise following the Law 71-74 relative to the Socialist Management of the Enterprise (SME). Until 1982, the PCA had the monopoly over production, distribution and import of medicines of human consumption. It was composed of three production plants: El Harrach, Biotic and Pharmal. Following the organisational restructuring of the public enterprise in 1982, the PCA was reorganised into the *Entreprise Nationale des Produits Pharmaceutiques* (National Enterprise for Pharmaceutical Products), (ENPP). The ENPP was given the monopoly in production. The distribution and imports were attributed to three regional enterprises called the Pharms- ENAPHARM, ENCOPHARM, and ENOPHARM to serve the central, eastern and western regions of the country respectively- *(Jora*, March, 1982*)*. In 1985, the ENPP was transformed into Saidal. Since 1985, economic growth through capacity expansion and product diversification through partnership was one of the long-term objectives of Saidal. In 1988, it acquired the production plant of Anti-Biotics of the state enterprise, *Société Nationale des Industries Chimiques* (National Company of Chemical Industries), (SNIC), located at Médèa and in 1992, it went into partnership with a 40 percent ownership in a mixed company called Fabre with the French laboratory Pierre Fabre and the Danish company NovoNordisk. This mixed company was supposed to be built at Tizi-Oozou in the area of Oued Aissa and produce 70 different medicines including Insulin. Unfortunately, this partnership never materialised and in 2002, the mixed company was dissolved. In 2005, the products of Saidal were produced in its three divisions. These were the division Biotic which was composed of the factory of El- Harrach, the factory of Gué de Constantine and the factory of Cherchell; The division Pharmal which was composed of the factory of Dar El Beida, the factory of Annaba and the factory of

Constantine; And the division Anti-Biotical of Médèa. These products were distributed through four distribution networks. These were the distribution centre of Médèa, the commercial unit of Batna, the commercial unit west and the commercial unit centre

Though Saidal competed in 2002 with some 85 pharmaceuticals import companies and 5 domestic producers - LADPHARMA, LAM, BIOPHAR, LPA and IMA -, it produced some 80 percent of the domestic production in pharmaceuticals. Its production was diversified in related products. In 2003, it produced 150 products. About 40 percent of the sale revenues were created by 40 products. The main products were anti-Biotics, anti-Diebetics, anti-Rhumatics and anti-Hypertensives. Between 1995 and 2003, the sale turnovers of Saidal increased from 2.4 billion dinars to 5.2 billion or an average growth of 13 percent per year. Of the 5.2 billion dinars recorded in 2003, about 1.2 billion were produced in partnership with some multinationals. Partnership had also contributed in the increase of Saidal export. Export included finished and raw material products. In 2003, export produced some 31 million dinars for a volume of 0.9 million units. Export was mainly to African and Arab countries in addition to Germany, Italy and France. In its long-term development strategy, Saidal put as its main objective to increase its share of the domestic market from 42 percent in 2005 to 50 percent by the year 2011 and to increase its export, where 10 percent of its annual sale turnovers should come from export. Since 2002, the long-term strategy (2002-2011) of Saidal had concentrated on improving quality in products and management to increase its shares in domestic and foreign markets. Consequently, the number of its labour force was in steady increase. Between 2001 and 2004, it increased by an average of 4 percent. Most of the recruitment had focused on skills in finance, marketing and research and development. Labour productivity as a measure of efficiency had steadily increased from 26,500 units per worker in 2000 to 33,000 units in 2001 and to 34,000 in 2002.

6.4.2. The SNVI

The heavy vehicles industry in which the SNVI operated is a highly concentrated industry with few companies dominating the industry. It is also an industry where customer demands focus on quality, reliability and competitive price. However, since independence in 1962, the domestic market for heavy vehicles in Algeria was monopolised by the state enterprise SONACOME and later by the SNVI. SONACOME was created in 1967 from the nationalisation of the French vehicles producer Berliet. It was composed of 10 production plants. The first truck produced by SONACOME came out of its production plants in 1973. In 1981, SONACOME was restructured following the Decree no. 81-342 dated 12 December 1981. The SNVI was created from this restructuring. The SNVI produced trucks, buses, trailers and coaches. The transition to the free market economic system initiated in 1990 did not affect the monopolistic position of the SNVI. The vehicles of the SNVI were produced in a 300,000 square meters industrial zone located in a small town called Rouiba which was situated some 30 Km away from the capital city Algiers. The zone was composed of five divisions:

One commercial division, one division for logistics and services and three production divisions where one was for welding, one for industrial vehicles and one for body works. The SNVI had also a sixth division which was for body works manufacturing located in the city called Tiaret in the west region of Algeria.

The market for vehicles, with all types combined - that is light and heavy vehicles - in Algeria was growing fast with an average rate of 20 percent with the growing population which was estimated to reach in 2005 around 32 million peoples. It was also growing with the new development strategy to build the country infrastructure which the state had launched since 2001. The market was considered to be the second in Africa after South Africa. In 2004, some 3.01 million vehicles were in circulation in Algeria. About 2 million were cars, 57,000 buses and coaches and 54,000 trucks. In 2005, the SNVI satisfied the domestic demand for heavy vehicles by producing between 4,000 and 5,000 vehicles per year. It captured some 40 percent of the market. The rest was satisfied by imports. The main competitors of the SNVI were Renault, Man and Iveco. Though the number of its workers was in steady decrease from 13,520 workers in 1987 to 8,000 in 2004, its sale revenues were in steady increase. Between 1997 and 2003, its revenues increased from 1.5 billion dinars to 14.7 billion dinars. Part of the increase was due to the number of vehicles sold but not so much on efficiency. Though the productivity was in steady increase compared to the 1990s, until 2004, it did not achieve its level of the 1970s and 1980s. In recent years, the SNVI had followed a strategy to attract partnership with multinational companies to improve its product mix and also the open new markets for its products. Until 2004, the products of the SNVI had penetrated some African and Arab markets but the sale revenues drawn from this penetration was very marginal. The President General Manager of the SNVI envisaged that the enterprise shares in these markets would increase with its partnership with the multinationals. In 2005, a partnership was materialised by the participation of the French company BTK in 65 percent of the capital of the production division at Tiaret and the prospect for the SNVI to have another partnership, this time with its number one competitor Renault Truck, was at the time of writing this work, at the stage of negotiations.

6.4.3. Eriad Alger

Eriad Alger was created from the organisational restructuring of the *société nationale* SNSEMPAC following the Decree no. 82-377 dated 27 November 1982. The decree reorganised the SNSEMPAC into five large regional enterprises – Eriad Alger, Eriad Tiaret, Eriad Bel Abbas, Eriad Setif and Eriad Constantine - Eriad Alger was created to subsidise the central region of the country with flour, semolina and other wheat derivative products like pasta, biscuits/chocolate, yeast, and animal feeding.

Since independence, the strategy of the Algerian state was to follow a self-sufficiency strategy in agricultural food products to reduce import. SNSEMPAC was created in 1965 from the nationalisation of a number of French mills. It was composed of 59 production plants spread in different regions of the country. As the population was growing faster from 13 million in 1969 to 18 million in 1979, the consumption of flour and semolina increased from 30 kg per head a year in 1965 to 80 kg per head in 1979. This increase in consumption automatically pushed the SNSEMPAC to increase the volume of its production. By 1979, 93 production plants were in operations where 63 of them produced flour, 13 produced semolina and the rest produced pasta, biscuits/chocolate, yeast and animal feedings. Its average production for flour and semolina increased from 1,500,000 kg per day in 1965 to 4,500,000 kg in 1980. Though there were private firms competing with the products of SNSEMPAC, these were small firms. SNSEMPAC had the monopoly, particularly after 1971 following the introduction of the socialist managed enterprise, over production and distribution. In 1979, its products were distributed through 576 distribution outlets located in different regions of the country. By 1980, the SNSEMPAC was still unable to fully satisfy the demands of the domestic market for its products. The technology it used in its operations was mostly inherited from the colonial period and therefore obsolete. For example, the mills of Hamma Bouziane located in the city of Constantine dated back to 1860. The enterprise was overburdened with debts accumulated as a result of the many public enterprises failing to pay for their purchases and the social costs introduced by the socialist managed enterprise system. However, the workers and their families benefited from free medical care and cheap food stuff. In 1979, SNSEMPAC had 27 medical centres with 40 general practitioners and 14 dentists instituted in different production plants. It had also 55 cooperatives, 18 canteens and 15 workers lounges. Like the rest of the *sociétés nationales* during the centrally planned economic system, workers training and development was an important objective in the strategy of the SNSEMPAC. Workers benefited from intensive training and development in the SNSEMPAC training centre called *Ecole Algerienne de Meunerie* (National School of Milling) located in the city of Blida and also in other public centres such as INPED, IIFC and ITEEM in addition to training in overseas schools.

When Eriad Alger was created in 1982, it inherited many of the debts of the SNSEMPC and the obsolete technology it used. With the transition into the free market economic system in 1990 and the growing number of private firms in the industry of wheat processing and its derivatives, Eriad Alger was unable to compete. In fact, Eriad Alger was constrained by the state which imposed on Eriad to abandon many of its activities such as biscuits, chocolate, yeast, pasta and animal feeding - whose prices were determined by the market and could have benefited Eriad Alger -, and to concentrate on the production of flour. The production of flour increased between 1991 and 1998 from 300 million kg a year to 350 million or a sale turnover from 40 million dinars to 45 million dinars. Though since its creation in 1982, Eriad Alger remained stable in terms of the number of workers which was around 6,000 workers, after the organisational restructuring taking place in 1998, the number was reduced by almost 40 percent or from 6,701 in 1996 to 2,535 in 2000. Since 1999, the efficiency of Eriad Alger had remarkably improved from 250 kg a day per worker in 1986 to 790 kg in 1999, but this did not add any value to its competition. Eriad Alger had been unable to protect its share in the domestic market. The high quality of the products of its competitors, the state imposition that Eriad Alger should use the state-owned enterprise OAIC as its only supplier for wheat, the difficulties to secure loans from the banks and the growing debts of the enterprise together with the unfair competition from the private and the informal sector, all contributed to the drastic decline of Eriad Alger where in 2005, its products almost completely disappeared from the market.

6.5. Conclusion

Enterprise restructuring is the introduction of changes in the operations of the enterprise. They are developed and implemented by individuals who have direct links with these operations. The perceptions and point of views of these individuals about these changes were important in this research for developing an understanding of when, what, where and how the changes took place. A qualitative research strategy was suitable for this purpose. The research used a multiple case study in order to carry out an intensive examination of the cases with the hope to generate new issues not covered by the literature of enterprise restructuring in the ex-communist countries and to establish the similarities and differences in restructuring behaviour between the cases. A combination of methods was used. These were qualitative interviewing, a survey and primary documents.

Though these methods allowed some understanding of enterprise restructuring and its determinants in the Algerian context and had generated some new insights such as the impact of civil war, lack of technical skills and adequate market information, the legacy of colonialism and cultural values on the enterprise in transtion and its environment, this understanding was limited for various reasons.

First, the research should have included other privatised and private firms with good financial records operating in the same industries as those investigated in the study. Eriad Setif, which was listed in the stock exchange since 1999 and was praised by the national newspapers for its good financial performance, and domestic private firms such as *LaBelle* and *Sim* with good performance records, would have been good cases to compare with Eriad Alger. The same could be said with Saidal. The inclusion of some of the best performing domestic private firms in pharmaceuticals in the study would have also given some insights on how these firms faced competition and the environmental constraints. Significantly, the inclusion of privatised and private firms would have enriched our understanding not only on their restructuring actions and financial and operational performance but would have, particularly, increased our understanding on the impact of the socio-cultural structure of Algeria and its political and economic developments backgrounds on the management behaviour of the Algerian enterprise.

Second, the evidence presentated in this research had ecological validity but could not provide internal validity and replicabiltity. The non-random method used in sampling had reduced the external validity of the findings.

Therefore, the findings drawn from Eriad Alger, Saidal and the SNVI could not be representative of all enterprises operating in their industries.

Third, the reliability of the measures employed to tap on the concept 'characteristics of top management team' have to be tested again in other research to evaluate their consistency. Also, since the questionnaire employed closed-questions, this had restricted the answer of the respondents. More data on top management characteristics should have been collected using other methods such as qualitative interviewing and company private documents on managers' ages, their academic achievement, their trainings and their work experience. Also significant to mention, there was no evidence that the questionnaires distributed at the Eriad Alger, Saidal and the SNVI were filled in by managers who were selected to be part of the investigation. In fact some questionnaires were filled in by managers from audit, quality control, sales and legal departments. And nobody could be sure that the managers who filled in the questionnaires were telling the truth in their answers.

More research on enterprise restructuring and its determinants must be carried out on a larger sample. The sample should include a combination of state, privatised and *de novo* enterprises in Algeria. The research should also be carried out on enterprises in other developing countries which also moved from the planned economic system to the free market system and also in countries which share cultural values similar to those found in Algeria.

Chapter 7

Enterprise Restructuring at Eriad Alger, Saidal and the SNVI

7.1. Introduction

There is a general agreement amongst researchers who studied the transition economies in the ex-communist countries that the ultimate success of transition depends strongly on the amount of modifications that the enterprises introduced in their day-to-day operations. It was seen in chapters two and three that not all enterprises in these countries responded to the emerging free market environment with the same degree. The response was influenced by the nature of industries in which the enterprises operated, the speed in the expansion of the private sector in the country, the extent of the hard budget constraints imposed on the enterprises, the type of owners in charge of the enterprises and the degree of development of many other mechanisms needed in the free market system such as bankruptcy, property rights, taxation and many others. All these factors had, with different degrees, influenced top management decisions in enterprise restructuring at Eriad Alger, Saidal and the SNVI. In this chapter, the privatisation approach followed by these enterprises and the impact of this approach on their control structure was examined first. This was followed by analysing the characteristics of their top management teams. A detailed analysis of their restructuring actions was given in section 7.4. To evaluate the restructuring actions of the three enterprises, section 7.5 analysed the impact of these actions in terms of their financial and operational performances.

7.2. Their Ownership and Control Structure

Eriad Alger, Saidal and the SNVI were slated for privatisation since 1995. Between 1995 and 2000, they were all listed to be partially privatised. This meant that they had to be put under the control of the Public Holdings. Eriad Alger was controlled by the Public Holding *Agro-Alimentaire de Base et Divers* (Basic and Diverse Agro-Feeding), Saidal by *Chimie-Pharmacie-Engrais* (Chemical-Pharmacy-Fertelisers) and the SNVI by HOMELEC. Though these Holdings were joint stock companies, they were not entrepreneurial companies. Their main purpose was to transfer the state-owned enterprises that they owned on behalf of the government to private investors. Before selling them to the private sector, these enterprises should pass by two stages. First, they should bet transformed into joint stock companies governed by commercial private rules. Saidal and Eriad Alger were already transformed into joint companies. The former was transformed in 1989 and the latter in 1990. As for the SNVI, this was transformed in 1995. Second, they should renegotiate their outstanding debts with their banks. This was done through a scheme called the *Dispositif Banque-Entreprise* (Bank-Enterprise Scheme). Eriad Alger and the SNVI settled their debts problems by having some of their debts written off and some to be repaid over a long period of time. Third, the enterprises should carry out the restructuring of their activities as a measure to reduce their operating costs by getting rid of unproductive activities and concentrating only on activities with future potential. Eriad Alger, Saidal and the SNVI embarked in their organisational restructuring in 1998. The SNVI was more aggressive than Saidal and Eriad Alger in its organisational restructuring approach. Unused garages, buildings and parking for vehicles as well as the canteens, cooperatives and cleaning services were all sold to private investors or returned to local municipalities and thousands of workers were laid off, even those with high technical skills. At Saidal, only workers with no skills such as cleaners and porters were laid off. But despite the massive cuts in workers and unproductive assets, efficiency at the SNVI remained still low and its survival in the market was still hard to secure.

Though the SNVI, Eriad Alger and Saidal were all allowed to raise funds, desperately needed for the modernisation of their equipments and procedures, by opening their capital to private investors, only Saidal did so because it was the only one economically and financially healthy. In 1998, Saidal launched its first long-term action plan (1998-2005) to modernise its equipments and machineries and improve the quality of its products and worker skills. To raise the capital needed to implement the plan, the PGM of Saidal proposed to the board of directors of the enterprise to open 20 percent of the enterprise capital to private investment. It took a lot of explaining before the PGM of Saidal convinced the CNPE and the Public Holding that the capital should be sold as shares in the stock market.   Before the shares were issued, an international consultancy company, the PGA which was a French division of the consultancy company Arthur Anderson, was hired. The company collected and analysed the financial and economic conditions of the enterprise. On the 22 June 1998, the general assembly of Saidal approved in its extraordinary meeting, as it was clearly stated in its resolution no. 4, to issue two million shares which should be sold in the stock exchange in 1999 for a fixed price of 800 dinars a share. The plan of the assembly was to create two block holders of shares represented by financial and non-financial institutions. The ownership structure of Saidal was planned to look like this (*Holding Publc Chimie-Pharmacie Groupe Saidal*, 1999):

- Financial institutions should own 30 percent of shares;
- Non-financial institutions should own 30 percent of shares;
- And private individuals should own 35 percent of shares;
- Workers of Saidal should own 5 percent of the shares.

This ownership structure did not go as planned. The PGM of Saidal, Ali Aoun, was against any strong participation by a block investor whether public or private in the ownership of his enterprise. He preferred, instead, to see the 20 percent capital owned by thousands of individuals. And for this to happen, he had to convince the general public that share ownership was a safe investment. At the beginning, a large portion of the general public was reluctant to participate in share ownership because it was something new to them and significantly because they were scared of losing their money. To convince the general public that their investment would be safe and rewarding, the PGM of Saidal mobilised a campaign to explain the benefits of investing in shares. In the words of a manager in the Biotic division:

> We were very enthusiastic about this campaign. Together with Ali Aoun [the PGM], we toured in our caravan every city in the country to encourage people to buy the shares…You know, it was the first experience of its kind in the country. People did not have the money and they were frightened to lose what they had got. With this campaign, we wanted to attract the maximum number of people… We were very happy with the result. The offer was oversubscribed. This boosted our confidence that our programme for the long-term development of Saidal would be implemented. We were sure that our enterprise would survive in the long-term (Manager, Biotic Division, Saidal, 2004)

The campaign yielded positive results. One million and 900,000 shares were bought by individuals and the rest by private firms. In the absence of properly functioning enforcement institutions to protect minority shareholders, the power of Ali Aoun dominated the decisions of the board of directors of the enterprise. His domination did not lead Saidal to less restructuring and poor financial performance as some observers would have expected but rather it made Saidal one of the most prosperous domestic enterprises in the country. In fact, Ali Aoun has proved to the government administration and to the general public as well that hard work and taking risk could turn a loss making enterprise at the door step of liquidation into a profit one.

When Ali Aoun was nominated in 1995 as the PGM of Saidal, the main objective for his nomination was to liquidate the enterprise. But rather than liquidating it, he turned the enterprise around. The first thing he did was to reorganise the operations of the enterprise and motivate workers to work hard. As a result, production and turnover increased. With its good performance record, Saidal, as seen later, was able to attract private investments by entering into partnerships with a considerable number of big foreign companies. And in 2004, Saidal sold 15 percent of its capital to a strategic investor, the company Faki. The sale was made in order to bring fresh capital which was needed for Saidal's second long-term development plan (2002-2011). The main objective of the plan was to make Saidal the number one domestic producer for pharmaceuticals and expand its share in foreign markets.

Though the government still remained a majority share owner in both Saidal and the SNVI, this did not, as it seems, shake the dominant power of their PGMs in the decision-making process. In fact, the enactment of Ordinance no.01-04 relative to privatisation had given them more power than they wished for. Under Ordinance no. 01-04, both Saidal and the SNVI still remained eligible for partial privatisation and therefore they were exempted from being part of the portfolio of any public holding represented by the SGP, and this meant that both enterprises were less closely supervised by the government administration. Only enterprises eligible for total privatisation had to be put under the control of the SGPs to speed up their privatisation. Eriad Alger was unfortunately one of them. It was put under the control of the SGP, CEGRO. CEGRO was the intermediate between the CPE, the MPPI and the PGM of Eriad Alger. Its mission was to manage the activities of Eriad Alger, to control its financial expenditures, to elaborate its policies in the repartition of dividends, to invest in projects for the development of its production capacities and marketing and to look for potential investors as buyers or partners. To keep a close control over Eriad Alger, CEGRO had to mandate its representatives to sit in the general assembly of the enterprise, had to nominate the directors of the enterprise's board and had to select the enterprise *Commissaires aux Comptes* (Financial Auditors). In practice, the programmes for restructuring and development of Eriad Alger and the plans for its privatisation were elaborated jointly between CEGRO and the PGM of Eriad Alger. Because CEGRO controlled a portfolio of tens of EPEs and had a limited number of staff, this made it hard for CEGRO to elaborate for each EPE its programmes for restructuring and privatisation plans. Often, the EPEs proposed and elaborated the programmes and the plans and CEGRO had only to approve them. For example, at Eriad Alger, the decisions to sell the flour production plant of Aissa Idir and the biscuit production division of Cherchell and many other unproductive assets were the initiatives of its PGM, Mr Mazidi and not of CEGRO.

One point to remember is that when the state-owned enterprise was 100 percent owned by the government and was slated for total privatisation as was the case with Eriad Alger, interference by the CPE and particularly the MPPI in the strategic decisions of the enterprise was strong. Any investment project proposed by the PGM had to be evaluated by the MPPI and the CPE and these two government bodies could accept or reject the proposal depending on how much the proposal fitted the strategies set by the government for privatisation. This was not the case with Saidal and the SNVI. Since the MPPI and the CPE regarded them as enterprises with potential, their PGMs were given almost unlimited power to take the decisions that would allow the revitalisation of these enterprises and make them more competitive.

From the interviews, it was clearly understood that the PGM of the SNVI and Saidal had strong influence in the decisions of the board of directors and the enterprise general assembly. At Saidal, the 20 percent of shares owned by the general public did not seem to have any effect to reduce the dominance of its PGM over the resolutions of the board of directors. By law, the shareholders, through their representatives in the board of directors, have the right to attend the meetings of the board; to decide on the strategic decisions of the enterprise; to nominate, sanction and remunerate the PGM; to decide on the amount of dividends to be distributed; and on the capital of the enterprise (*Code de Sociétés, livre 5 du Code de Commerce*, 1993). In practice, as revealed in the case of Saidal, the influence of the two directors representing the shareholders and the two directors representing the workers in the decisions of the board of directors had almost no effects whatsoever. One should not forget that the power of the PGM in the joint stock company in Algeria stems from the Commercial Code itself. The code does not clearly specify what responsibilities the board of directors has towards the shareholders. More important, the code gives total power to the board of directors to take short, medium and long-tems decisions. And since the PGM is the chairman of the board and the directors meet only occasionally, this automatically makes the PGM the top decision maker in the enterprise. Though the code specifies that any resolution in the board meeting should be taken by majority votes, whether at Saidal, the SNVI or Eriad Alger, the members of the board of directors agreed with whatever decisions the PGM made. The loyalty of the directors to the PGM seems to play a key role in decision-makings not only in the three enterprises of this research but in most state and partially privatised enterprises in Algeria.

Through its representatives in the general assemblies of Saidal, the SNVI and Eriad Alger, the government (the government was represented at Saidal and the SNVI by members from the MPPI and at Eriad Alger by members from the MPPI and CEGRO) was supposed to be in charge of the selection process of the directors of the boards in these enterprises. But it was a common practice in these three enterprises, and without doubt in all state-owned enterprises slated for privatisation in the country, that the majority of the directors had relational links with the PGMs. How this happened? The Commercial Code allows the PGM to propose a list of people for consideration by the general assembly of his enterprise but the code does not specify upon what criteria the candidate should be nominated, this was left for the discretion of the members of the assembly. In most cases, as it was understood from the managers at the UGTA, the directors were nominated without prior scrutiny or investigation on their professional competence, integrity and specialisation in the activities of the enterprises. And it became almost a rule in almost all state-owned and partially privatised enterprises in the country to see that the majority of directors were individuals with whom the PGMs had developed, through the years, friendly and close relationships. The directors often belonged to public commercial enterprises, to government banks and to the different departments in the government administration. Table 7.1 below gives some insights on the type of members that composed the board of directors of Saidal in 2000.

Table 7.1. Type of members that composed the board of directors at Saidal in 2000

Full name	**Duties at Saidal**	**Duties outside Saidal**	**Representation outside Saidal**
Ali Aoun	PGM		ENEPAC
Haddadj Hamid	Director	Previous PGM of Saidal	
Chabi Ali	Director	PGM of ENEMB	BADR
Bouabcha Salah Eddine	Director	Assistant in Petrochemical Development	
Chihab Mohamed	Director	Manager of NAFTAL Network	ENAED
Moustafaoui Benamara	Director	Manager of Security NAFTAL division of SONATRACH	
Boulala Ahmed	Director	General Manager of Simedal Pharmaceutical products	
Bey Mustapha	Manager of Social Services at the division Biotic of Saidal		
Nabi Slimane	In Charge of Principal Study at the Anti-Biotical Division		

Source: Holding Public Chimie-Pharmacies Groupe Saidal, 1999

Resentment in the way the directors were selected was expressed not only by the interviewed workers and managers at the UGTA but also by some managers at Eriad Alger. For the general secretary of Eriad Alger "Legally, the *Conseil d'Administration* (Board of Directors) is the most important body in the enterprise. Its members should be composed of persons with competence, who have the right specialisation and motivation to bring something new to the enterprise, not playing the role of how much they will take advantage of the policies of the PGM' (General Secretary, Head Office, Eriad Alger, 2004). Both the directors and the PGMs saw each other as an important channel through which to strengthen old relationships and create new ones through new contacts with individuals from other enterprises and government institutions.

Clearly, changing the state-owned enterprise from a socialist enterprise into a joint stock company did not break the long established tradition of nepotism which predominated the socialist era in the recruitment of people at the highest level of the hierarchy in the enterprise. In fact, the transition to the free market economic system had reinforced the relational network not only in the nomination of the members of the board of directors but also in the recruitment of the enterprises PGMs. In the three enterprises of this study as well as in almost all enterprises in the public sector, the PGMs were selected for their loyalty to influential factions in the government apparatus. In the words of a retired manager interviewed at the UGTA's headquarters (2005) "Since independence, managers in Algerian state enterprises have always been selected to concretise in their work place the state political, economic and social policies". The manager of the Conflicts and Social Affairs at the UGTA (2005) added "Managers were selected from two institutions: from the army, from the *Armée Nationale Populaire* (Popular National Army), (ANP), and from the unique political party, from the *Front de Liberation*

Nationale. Today, they are still selected from the army and the FLN and also from other influential factions in the state... Every minister will select the PGMs he can trust and he can rely on to implement his decisions. You do not have to see far, our enterprises are full of *Anaam Sidi (*yes master)".

However**,** one has to mention here that though the Commercial Code states that the PGM should be elected by the board of directors, it seems that the government wanted to show to the World Bank, after the signature of the first Stand-By in 1994, its determination to fight nepotism and corruption inside the state enterprise. This determination was clearly seen when the government introduced a clear procedure on how to select and recruit PGMs and General Managers (DGs). The Human Relation Psychologist at the CNAT explained that "The intention of the state, the way I understand it, was to reduce nepotism in the selection process of senior managers of the EPEs which has become endemic in the whole public sector" (Human Relation Psychologist, CNAT, 2005). The government tried to break up the long-established relational networks that dominated the selection and recruitment process of senior managers by giving the opportunity for a new blood of managers especially from the private sector to manage the state enterprises with the hope to accelerate the organisational and financial restructuring of the enterprises slated for privatisation to speed up their privatisation and to turn those not yet listed for privatisation more competitive to make them more attractive to domestic and foreign investors. Following the Instruction of 29 January 1995 of the head of the government, Mokdad Sifi, the Public Holdings were required to advertise the vacant positions in the national press. Once this was done, the board of directors of the enterprise concerned, through an *Ad-Hoc* committee of experts, in which no member of the board should be present, would select the candidates. The selection was based, in addition to the academic achievement and professional experience of the candidate, on how well the candidate answered the interview questions which were predominantly about creativity and taking risks in business and the relationship with others in the enterprise. The selected candidates should be interviewed and evaluated by a second committee called the *Comité d'Interview* (Interview Committee). At the CNAT (Mission Conduite par les Services Specialisés du CNAT, November, 1995), the *Comité d'Interview* was composed of one expert in Human Resources Management, one expert in Human Relation Psychology, one expert in the domain of activity of the enterprise seeking to fill the vacant vacancy, one representative of the Public Holding, one representative of the ministry of the industrial sector to which the enterprise belonged and if the vacant position was in an enterprise operating at local level, a representative of the head of the local government should also be included. The committee was required to assess the candidate's academic achievement and professional experience, and also evaluated his/her knowledge and attitudes on areas such as:

- His/her ability to communicate with others;

- His/her ability to motivate others;

- His/her ability to be creative and innovative;

- His/her ability to negotiate and resolve conflicts;

- His/her ability to take risks.

Once the evaluation of candidates was done by the *Comité d'Interview*, the *Comité* submitted the candidate's evaluation report to the board of directors in the case of the EPE and to the sponsoring minister and the head of the local government in the case of a national enterprise not yet transformed into an EPE and an enterprise operating at a local level respectively. In the case of an EPE, the board and very often the Public Holding would decide who should be chosen for the vacant position. Once the selection was done, an employment contract had to be prepared which would be negotiated between the board and the candidate selected. Before the signature of the contract by the two parties, the contents of the contract had to be reviewed by the Public Holding for any amendments. The length of the contract had to be not less than three years and not more than six years (*Chef du Gouvernement*, 29 January, 1995). In this study, the PGMs of Saidal, the SNVI and Eriad Alger had been in their position as PGMs since 1995, 1998 and 2000 respectively. Their work contract had consistently been renewed since then.

The selection procedure of senior managers in the state enterprises introduced since 1995 had created some transparency in the selection and recruitment process but the procedure did not last long. It was abandoned after 2001 when Ahmed Ouyahia came as the Head of the Government. The retired manager interviewed at UGTA's headquarters (2005) explained that:

> Ouyahia has brought us a system where regionalism and tribalism in the selection of managers, and I mean any manager, is based on the region he comes from. I am sure you have seen it yourself when you went to these enterprises. You noticed that sometimes almost the whole chain of managers come from his region, you know which region I mean.

This abusive behaviour in the selection of senior managers could be expected because the Commercial Code has kept, like in the case of the nomination of members of the board of directors, silent on the criteria by which the PGM should be selected and there is no independent organisation in the country attributed with power to verify how the selection and recruitment process is done in the enterprises. And from the interviews with the managers at the UGTA, it was clearly understood that despite the emphasis in the official publications by the various departments in the government administration that state enterprises whether slated or not slated for privatisation should seek hard to recruit people with managerial competence outside the public sector, almost all senior managers of state and partially privatised enterprises in the country were managers and workers who served during the socialist period. The findings drawn from the self-completion questionnaire, examined in the next section, distributed among the management teams of Eriad Alger, Saidal and the SNVI provided support to what the managers at the UGTA said on this issue.

7.3. The Characteristics of their Management Teams

The analysis of the data collected from the survey indicated that there was almost no distinction between the three enterprises in terms of the characteristics of their top management teams. The great majority of their senior managers were middle aged individuals. For the Human Relation Psychologist:

> The age of a PGM and a DG seems to matter a great deal to the SGP and to the *Conseil d'Administration…*It seems that there is a tendency to choose persons who fall in the age group between 40 and 50…If you ask me why, I really do not know. Perhaps because this age group is perceived as the right age where a candidate is mature enough, has accumulated enough work experience, etc. (Human Relation Psychologist, CNAT, 2005).

Looking at table 7.2 below, not only the PGMs fall in this age group but also the majority of division and functional managers. More than 50 percent were aged between 46 and 55. Very significant was the predominance of men in managerial position. Out of the 79 managers who participated in the survey, only 7 managers were female.

Table 7.2. The age groupe of managers at Eriad Alger, Saidal and the SNVI

Age / Enterprise	Less than 46		46-55		More than 55		Total managers in each enterprise	
Eriad Alger	10	(29%)	20	(58%)	4	(13%)	34	100%
Saidal	6	(25%)	13	(54%)	5	(21%)	24	100%
SNVI	7	(33%)	12	(57%)	2	(10%)	21	100%

Source: Data analysis.

The survey also revealed that the majority of managers were high academic achievers. Table 7.3 below, clearly reveals the high percentage of the managers in all the three enterprises with academic achievements from universities and technical institutes and some with postgraduate degrees such as master and Phd. The PGM of Saidal, for example, carried a Phd degree in chemistry. Also, 70 percent, as shown in table 7.4, graduated from engineering studies and only 18 percent from administrative studies

Table 7.3. Number of managers with different academic achievements

Education background / **Enterprises**	**University Level**		**Technical college level**		**Secondary School level**	
Eriad Alger	11	(32 %)	15	(44 %)	8	(24 %)
Saidal	18	(75 %)	2	(08 %)	4	(01 %)
SNVI	11	(52.4%)	7	(33.3%)	3	(14.3%)

Source: Data analysis.

Table 7.4. Academic discipline of managers at Eriad Alger, Saidal and the SNVI

Enterprise / **Academic Discipline**	**Eriad Alger**		**Saidal**		**SNVI**	
Engineering studies	18	72%	12	66.7%	13	72.2%
Administrative studies	05	20%	02	11.1%	04	22.2%
Economic studies	02	08%	04	22.2%	01	05.6%
Total	25	100%	18	100%	18	100%

Source: Data analysis.

The high level of academic achievements of managers was not confined to these three enterprises only but it was common in most state enterprises as explained by one trade union manager when he said that "This is the fruit of the heavy investments in education and training carried out by the state during the 1970s" (Assistant Manager, Department of Conflicts and Social Affairs, Headquarters, UGTA, 2005). The technical manager at the SNVI also added that "During the 1970s, the state tried to create a strong base of professionals in manufacturing to concretise its policy of '*l'industrie industrialisantes'* (in other words, creating a national heavy industry base)…We sent many of our young workers to continue their studies in communist and Western countries… the results were good, good indeed" (Technical Manager, Technical Department, Head Office, SNVI, 2005).

The majority of managers at Saidal, Eriad Alger and the SNVI worked in their enterprises for more than 10 years. At Saidal, the 24 managers who participated in the survey had been with the enterprise between 12 and 19 years. At Eriad Alger, though there was between 1995 and 2001 about 18 different PGMs, to my surprise, only few division and functional managers had been replaced. Of the 34 managers who participated in the survey, 33 worked with the enterprise between 10 and 23 years. As for the SNVI, in recent years, the enterprise recruited 11 out of the 21 managers from outside the enterprise. No managers in the three enterprises had work experience in the govenment administration or the private sector. At Eriad Alger, the newly recruited manager worked in one public enterprise. At the SNVI, seven worked in one public enterprise and four in two public enterprises.

Compared to Eriad Alger and Saidal, the SNVI had the highest number of newly recruited managers. This was expected as a result of the fact that the SNVI had carried out, following the sharp decline in its outputs because of the liberalisation of trade in the early 1990s and the organisational restructuring of 1998, massive reduction in the number of its workers including managers with high calibre. The Human resources manager explained that:

> The biggest mistake we made in the 1990s is that we did not make any distinction in the reduction of our workers…People who had been with us for years, who had outstanding professional skills had been laid off. The consequence of this irrational policy is that we have been forced to recruit new managers and professional workers from outside to replace the ones we lost (Human Resources Manager, Head Office, SNVI, 2005).

Whether recruited from outside or promoted internally, there seems to be a common policy followed at the SNVI as well as at Eriad Alger and Saidal that managers should have strong work experience in areas such as product inspection and control, procurement and particularly production. At Eriad Alger, five managers spent between 12 and 16 years in production and two between 2 and 6 years. At Saidal, nine spent between 7 and 11 and seven between 2 and 6. At the SNVI, fourteen spent between 7 and 11 and two between 2 and 6 years. Also, the majority of managers surveyed were promoted from the department of production as table 7.5 below shows.

Table 7.5. The number of managers promoted from the different functional departments

Department \ Enterprise	SNVI		Eriad Alger		Saidal	
Production	15	(71%)	25	(73%)	17	(69%)
Finance/Accounting	5	(25%)	6	(18%)	5	(21%)
Commercial	1	(04%)			2	(10%)
Procurement			3	(09%)		
Human Resources						
Total	21	100%	34	100%	24	100%

Source: Data analysis.

The prospect to be promoted to managerial positions from production was confirmed by the Human Relation Psychologist at the CNAT (2005) when she said that:

> The majority of candidates I interviewed came particularly from engineering…Most of them spent considerable years in the production department…They have impressive knowledge in their field of specialisation…I also noticed that there is a tendency which is now growing among public enterprises to select managers with financial accounting background and experience to be able to manage the financial constraints faced by most enterprises.

Three reasons can be given for why the promotion to managerial positions came predominantly from the department of production. First, through the years, production managers accumulated the right skill to deal with the shortage of inputs which was endemic in the socialist enterprise. This type of skill was still needed during the transition to the free market where many enterprises, especially those in the public sector and with financial debts, saw occasional interruptions in the supply of the raw materials they needed for their production plants. Second, many managers in many state and partially privatised enterprises still regarded increasing the volume of outputs as the best strategy to face competition and therefore managers with a long experience in production would be the right people to implement this strategy. Third, managers with functional experience in production were regarded as the people who were more sensitive to technological development and they were expected to bring a great contribution to technological innovation or modification in the processes and products of their enterprises.

In addition, the survey revealed that all managers in the three enterprises were given training in their respective tasks but only 82 percent at eriad Alger, 88 percent at saidal and 81 percent at the SNVI were given training in quality management with the prospect to produce products recognised by international standards.

Clearly, the great majority of managers in the three enterprises were groomed within their enterprises and this leads to argue that it would be unlikely that they would easily allow their enterprises to be sold to private investors. Almost all managers interviewed at Eriad Alger, Saidal and the SNVI were determined to protect their enterprises from total privatisation. The PGM of Saidal expressed clearly in a press conference that he would have wished to see his enterprise still 100 percent state owned and wished to see the state to stay present in an industrial sector like the one in which his enterprise operated. He had regretted to have issued 20 percent of the capital of his enterprise (*Politique*, 19 March, 2006*)*. One should not be surprised to see this antagonistic position of managers to privatisation. These managers were deeply attached to their enterprises and the majority were indoctrinated with the ideology of the publicness of the industrial sector. They would try hard to protect their enterprises from new and young recruits with liberal ideas who might challenge their decisions and might take their jobs and consequently sell their enterprises. To protect their enterprises from the newly emerging liberal ideas and protect their positions, the PGMs of Eriad Alger, Saidal and the SNVI, and the same could be said with the PGMs of other public enterprises in the country, surrounded themselves by managers whom they could trust. Trustworthy individuals were promoted internally or recruited from other public enterprises with which the PDGs had close relationship. The various evaluation reports of candidates for the position of PGM, produced by the *Comité d'Interview* at the CNAT, revealed the strong belief of the candidates that a PGM should build up around him/her a management team whom he/she could trust. The trust according to these managers could provide a harmonious environment within the enterprise. They perceived trust and loyalty as useful instruments that would bring stability in the enterprise because there would be few conflicts between the PGM and his/her subordinates over the many management decisions.

More important, at Eriad Alger, Saidal and the SNVI, managers were proud to be high academic achievers and skilled in the core activity of their enterprises and therefore many of them in the division and functional departments complained that they were not paid enough when compared with their counterparts in the private sector. However, since the law of autonomy of 1988, the government had tried to make the senior management positions, particularly the PGM/GM position, in the state enterprise attractive to talented managers by raising their monthly salaries. The remuneration of a PGM, for example, was composed of two parts:

- A fixed part. This was composed of the basic salary and all the accompanying allowances such as a company car often chauffeur driven, mobile phone, and travel expenses. Since the liberalisation of the economy in 1990, the basic salary of a PGM was calculated based on the Salaire National Minimum Guaranti (SNMG) - the Guaranteed Minimum National Salary. In the two years when the research study was carrried out, the SNMG was 10,000 dinars (with today's exchange rate equivalent to about US$ 130). In most state enterprises, the basic salary of a PGM was 8 to 10 times the SNMG and in some enterprises like, for example, at the Entreprise Nationale de Geophysique (National Enterprie of Geophysics), it was 20 times (Open letter from the trade union representatives of the enterprise ENAGEO to the PGM of ENAGEO, 3, July, 1995)

- Bonuses. There were two types of bonuses. Bonuses paid every three months for achieving the performance objectives of the enterprises and an annual bonus decided by the ordinary general assembly in its annual meeting. This bonus was required not to be more than 60 per cent of the basic salary.

On average, the monthly salaries of managers at Saidal, Eriad Alger and the SNVI, with the exception of the position of PGM, ranged between 40,000 and 50,000 dinars. As it was impossible to get access to information on the salaries of their PGMs, and based on the information gathered on salaries from other state enterprises, one would speculate that the average salary of their PGMs would fall between 100,000 and 120,000 dinars. The salary of a PGM was negotiated between the PGM and the board of directors and it was subject to review. The review was based on how much the enterprise had achieved the quantitative and qualitative objectives set in the Performance Contract signed between the enterprise and the government.

All PGMs of state enterprises were subject to the system of Performance Contract. This system came as a result of the *Circulaire* no. 03 of 22 January 1994 which required every state enterprise to elaborate a *Plan de Redressement* (a restructuring plan). The plan was an assessment of the strengths and weaknesses of the enterprise. In most cases, it was elaborated by the PGM with the assistance of an international consultancy company. The plan was negotiated between all parties involved in the state enterprise (here the PGM, the Public Holdings, the bank and the UGTA). Once the plan was accepted by the different parties, a Performance Contract was formulated between the Public Holding and the enterprise (*Holding Public Regional Centre,* 1999). The contract set the objectives to be achieved by the enterprise for a period of 3 years.

The essence of the Performance Contract was as it seems the intention of the government to motivate the PGMs to increase the productivity and financial performance of state enterprises. The contract included the objectives to be achieved in the various operations of the enterprise. It also included the types of support and assistance the government should provide to make the achievement of the objectives possible. The contract included quantitative and qualitative objectives. The quantitative objectives covered:

- Profitability;
- Productivity;
- Rate of capacity utilisation

And the qualitative objectives covered:

- Partnership with foreign investors;
- Divisionalisation of activities;
- Shares issuing;
- Redundancy;
- Putting in place information management systems;
- Management of stocks

From consulting the various performance contracts in the three enterprises of this study, the contracts tended to give high importance to profitability and productivity. A typical Performance Contract attributed to the quantitative and qualitative objectives the weights shown in table 7.6 below.

Table 7.6. Objectives and their weights included in a Performance Contract

Objectives	Weights
• **Profitability**	40%
• **Whole productivity**	30%
• **Rate of capacity utilisation**	10%
• **Resources re-employment**	08%
• **Installation of accounting analysis**	06%
• **Management Information System**	06%
Total	100%

Source: Data analysis.

The implementation of the contract was evaluated by the Holdings. In the case of Eriad Alger, for example, it was evaluated by CEGRO. The evaluation took place every 6 months and sometimes every month when the performance of the enterprise showed sign of a very poor score. Achieving between 90 and 100 percent was considered an excellent performance, between 70 and 80 percent a good performance and less than 60 percent an unsatisfactory performance. When an enterprise achieved an excellent performance, some functional and production plant managers could be promoted and the salaries and bonuses of the whole top management team would often increase as a consequence. In the case of achieving less than 60 percent, the management team and members of the board of directors could be dismissed. Before the dismissal occurred, an investigation by the bank and the government representatives such as the CPE and the *Inspection Général des Finances* would be carried out to see the causes. When poor performance of the enterprise was attributed to environmental factors that were beyond the control of the PGM, the government was required to provide compensations for any losses incurred from the unforeseen constraints.

Though the government sought by the system of the *Plan de Redressement* and the *Contrat de Performance* to be close to the problems of the state enterprise and as already mentioned to motivate senior managers to increase their efforts to improve the performance of their enterprises, the system did not bring any improvement in most state and partially privatised enterprises. For one manager at the UGTA, 'The Plan de Redressement and the Contrat de Performance are a waste of time. They are a failure like the rest of all the policies initiated by the government since the liberalisation of our economy' (Manager, Department of Conflicts and Social Affairs, Headquarters, UGTA, 2005). The same informant added that the system was good in its substance but it had never been applied as it should be. Despite many state enterprises were operating at deficit, the government did not seem to bother a lot to sanction senior managers. In fact, their salaries were in steady increase and this because every time there was an increase in the SNMG, their salaries had automatically increased. In a frustrated tone he said:

> The liberalisation has made the PGMs richer and the workers poorer…I cannot understand, and nobody can make me understand how an enterprise which is working at losses can increase the salaries of its PGM and his management team. In fact, the SNMG has been practically created not to benefit anybody else but the management class. Every time the SNMG increases, automatically the salaries of the management will have to increase. The rise in salary should be connected to performance achievement not to the SNMG. It is against this policy of resource wastage that us the UGTA we stand against. We want a state with a clear economic and social policy. A policy which is fair not to serve only a tiny minority of the population (Manager of Conflicts and Social Affairs, Headquarters, UGTA, 2004).

At both the SNVI and Eriad Alger, their PGMs were exposed to strong criticism by their workers including their division managers. At the SNVI, they wanted to understand why the salaries of their PGM had been for a long time in steady increase by an average of almost 10 percent each year while the same PGM refused any negotiations to increase the salaries of the workers. And it was this unfairness and insensitivity of the PGM to the demands of the workers which led to the 6 days strike in November 2003 at the production plants of the SNVI at Rouiba. As for Eriad Alger, the anger of workers broke out in 2005 as a response for the non-payment of salaries of most division workers while the PGM and his *entourage* (managers and workers who were close to the PGM) were still getting their salaries. Things went worse for the PGM of Eriad Alger when workers demonstrated against him at the head office of the enterprise and at the headquarters of the SGP CEGRO not only demanding the payment of salary arrears of most workers but also refusing his announcement of massive workers downsizing in the 5 divisions of the enterprise where some divisions were planned to lose some 80 percent of their work force.

7.4. Their Restructuring Actions

Until 1990, Eriad Alger, Saidal and the SNVI were surrounded by a stable market which meant an absence of competition in the case of Saidal and the SNVI and a negligible one in the case of Eriad Alger. But the liberalisation of trade, the devaluation of the dinar, the budget constraint imposed by the state treasury and the state banks on the public sector, the explosion of small and medium private firms and the growing size of the informal sector, all these conditions subjected the three enterprises to a real challenge. Like most state enterprises in the country, however, the early years of transition were a real shock to Saidal, Eriad Alger and the SNVI. Their outputs declined sharply as a result of the sharp shortage of cash to buy the raw materials required in the production process and also their inability to sell their products because of the strong competition from imports. At Saidal, the size of its sales in terms of units sold dropped from 73 million units in 1991 to 50 million in 1992 creating a sharp drop in its net profit from 704 million dinars to 377 million dinars (Boulahrik Mohand, 1995). The same can be said with Eriad Alger. Though at Eriad Alger for the period 1991 to 1995, the sales of flour and semolina increased because of the government policy to import enough wheat in order to avoid shortages in the supply of bread in the country which might lead to serious social unrest, the production of its other products like yeast, biscuits and chocolate dropped sharply. The production of yeast for the period 1991-1994 decreased from 18,270 tonnes per year to 17,400 and for biscuits/chocolate the decline was from 137,024 tonnes to 12,0 75 tonnes (*Bilans de Synthèses*, 1990, 1992 1993 1994). As for the drop in sales of the products of the SNVI in the early years of the transition, the data was, unfortunately, not available. However, from the series of interviews carried out with many of its managers, it was clearly understood that the enterprise suffered heavy losses. A manager in the carrosseries division explained that:

> Before [that is before the transition], we were producing. We had annual plans and we made profits. Every thing was fine..

> But with the policy of enterprise autonomy and the transition to the free market economic system, the state had left us. We had to finance most of our production from our own means (Manager, Carrosseries Division, Rouiba, SNVI, 2005).

The liberalisation of trade in the early 1990s was only one side of the problem faced by the three enterprises. In 1995, these enterprises were listed to be partially privatised which meant that their top management had to design a plan, often in consultation with the Public Holdings, to restructure their enterprises to revitalise them and make them able to absorb the challenge of competition. This was a tough task for top management given their lack of expertise to deal with competition and the poor performance of the free market institutional environment which had just emerged. After ten years since these enterprises were listed for privatisation and fifteen years since they were exposed to competition, this study was able to draw the conclusion that Eriad Alger, Saidal and the SNVI had followed different approaches to enterprise restructuring. Their restructuring behaviour was discussed and analysed through two broad dimensions: their top management perception of the market and the changes they introduced in their internal operations. Three areas in their internal operations were discussed and analysed. These were: their product market strategies, their organisational structures and their employment practices.

7.4.1. The SNVI

7.4.1.1. Its Top Managemen Perception of the Market

There is no a prescription available which guides top managers on how to diagnose the market in which their enterprises operate. Their decisions to cope with the changes taking place in the market are as good as their perceptions of that market. At the SNVI, their top managers considered that their enterprise had passed by tough time especially in the early years of transition. According to a manager in the carrosseries division:

> The sudden withdrawal of the state from the economic activity made both our suppliers and customers in serious financial troubles. Our supplier of steel at *El-Hadjar* could not produce enough steel because of the lack of money. Also, public enterprises which were our customers did not have the money to buy from us…It was a very difficult time for us.

He added:

> Being public, we had to come to the rescue of other public enterprises. We had accumulated huge debts as a result. In fact, until now, many of these enterprises have not paid us. Some of them have already been closed down. Now, we are negotiating with the state to write off these debts from our accounting books (Manager, Carrosseries Division, Rouiba, SNVI, 2005).

But with the stabilisation in the macroeconomic conditions in recent years, many SNVIs top managers became more relaxed when they talked about competition in their market. Though to survive in a competitive market especially when your competitors were multinationals an enterprise had to seek hard to create new products with new markets or new markets with its existing products, but for the top managers of the SNVI, their market was given and not created. With a pride in the tone of his voice, the commercial manager explained that:

> The activities in which our enterprise operates require heavy investments and a technical experience accumulated through years of practice which our enterprise has. This makes the entry of a domestic competitor very difficult…Us! we do not have a domestic competitor. We have the monopoly in the creation and making of vehicles. True, we have some competitors. But these are Algerians in partnership with foreign firms who import vehicles. I mean they are authorised agents. They are not a threat to us… It is true, at the beginning [the early 1990s], a lot of our customers left us to buy vehicles from these agents, but when they saw the product - it is generally Asian product - they have regretted to have left SONACOME. Because they realised that our product has quality and robustness. Many have come back to us (Commercial Manager, Commercial Division, Head Office, SNVI, 2005).

Many customers have come back to the SNVI because of some institutional developments that have taken place since the late 1990s. Senior managers of the SNVI together with the trade union put pressure on the government to regulate import of vehicles. In 1997, the government only allowed the entry into the country of vehicles less than 3 years old. In 2005 more restrictions were imposed on vehicle imports where only new vehicles were allowed to be imported. These restrictions on imports together with the reduction of taxation from 15 percent, to 5 percent and recently in 2005 to 0 percent on imported raw materials and equipments entering in the production process of vehicles at the SNVI, had provided the SNVI a quasi-monopoly in the market for trucks, buses and auto cars in the country.

The threat of competition had also been of minor concern to top managers of the SNVI because of the recent government decision in 2004 to exclude the SNVI from total privatisation. The enterprise was considered strategic in the economic development plans of the government. The SNVI was strategic in terms of being: First, the major supplier of vehicles for the Ministry of National Defence and for the local governments. It produced heavy trucks for the army, buses for school student transportation and trucks for rubbish collection for local governments. It also produced vehicles for SONATRACH and SONELGAZ. Second, with the increase of production of the enterprise from 20 percent in 1998 to 40 percent in 1999, and its export to some African countries like Gabon, Congo, Niger, the Senegal and also to some Arab countries like Iraq, Lebanon, Tunisia, Morocco, Libya and Mauritania, the government seemed to have come to realise that, if encouraged explicitly and implicitly, the SNVI could be a potential national producer for heavy vehicles. The encouragement would increase its market share and consequently it would help reducing the government expenditures on import of vehicles. Since the production of vehicles depended on other industries like steel, plastics, rubber, leather, glass to name but few, this would help the revival of enterprises in these industries which had been declining in recent years and would create consequently more jobs. Encouragement would also boost the confidence of the SNVI to export more which would be a good source for bringing the needed foreign currency. Third, the government had launched since 2002 very ambitious programmes for the development of the country infrastructures. These programmes included the building of one million houses to be finished by the year 2009, the development of agricultural and water industries and a massive project for building roads and motorways.

With these ambitious development programmes, the SNVI was expected to play a key role in supplying the domestic market with the needed heavy vehicles. It was estimated that in the year 2008 alone, the minimum needs of the markets for trucks would fall between 15,000 and 17,000 and for buses between 3,000 and 3,500 (*Libérté*, 3 April, 2007). As a consequence, explicit support had been provided by the government to boost the confidence of the SNVI such as:

- The writing off of some of the SNVI's outstanding debts estimated to some 62 billion dinars (the equivalent with today's exchange rate of some $US 4.5 million) (*Libérté,* 5 April, 2007). When asked in a press conference for why the government did not do the same for other state enterprises in financial troubles like the SNVI, the Minister of Industry responded that "The financial debts of the SNVI are not the result of bad management of the SNVI but they are the result of the exogenous factors of the 1990s" (*El Watan,* 1 February 2005) On the same point, a manager of the SNVI added that "The senior managers of the SNVI are still putting pressure on the Ministry of Industry to write off all its past debts to give the enterprise a clean start" (Manager, Carrosseries Division, Rouiba, SNVI, 2005);

- Bringing back to light the project for building the first Algerian car '*Fatia'* which was initiated in 1989 in partnership with the Italian car manufacturer

Fiat and then abandoned because of the country political instability in the 1990s;

- Transferring to the work shops of the SNVI more than 3,000 vehicles produced by the SNVI and used by the local governments, which were left for years laying without repairs, to repair them and introduce some modifications to them.

All these institutional, financial and economic support which have been provided by the governmente demonstrate how much the government was reluctant to disengage from the control of the SNVI. This reluctance was also clearly demonstrated when the Minister of Internal Affairs said that:

> The importance of the contract [the orders made by the Ministry for 1,300 mini cars for school transportation and 3,000 vehicles for reparation and renovation] between the SNVI and local governments is not only to provide the local communities with means of transportation but also the development of the SNVI which has proved that when it has orders for its products it can function in a good and efficient manner…This is [that is the SNVI] one of the best example which shows that the public enterprise can be present whatever the environment (*EL-Moudjahid*, 12 September, 2005)

The implicit and explicit support provided by the government to the SNVI had revived the enterprise at least in the short term. It had also given to its top managers a reassurance that if things stayed as they were, that is government' support, they do not have to worry a lot about the future survival of their enterprise even in a free market economic system. The top managers of the SNVI were quite convinced that the change should be introduced in the enterprise slowly and not in leaps. For the technical manager:

> We are now in the free market system. Yes. This is good. But we have to go slow. We have to react to events as they come. We have to react in a manner which brings us results. We have to be careful. We should not change for the sake of change. We should change only when the change brings positive results to the SNVI and more importantly to our community (Technical Manager, Technical Department, Head Office, SNVI, 2005).

7.4.1.2. Restructuring of its Internal Operations

Since 1986, the easy life of the SNVI started to decline. The budget constraint imposed by the state treasury and banks upon the public sector put the SNVI in deep financial troubles. By the end of 1997, the enterprise was burdened by some 47 billion dinars of debts. The cash trap in which the enterprise found itself in made the SNVI delaying paying its suppliers and its creditors. Many creditors started to take legal actions against the SNVI to get back their money. The top managers of the SNVI intensified their negotiations with the state treasury asking the state to bail out their enterprise or at least provide some guarantees to the state banks to facilitate their acquisition of bank loans. Through the *Dispositif Entreprise-Banque* scheme, the financial situation of the SNVI was restructured and in 1998 a new PGM, Chahboub who had been with the enterprise since 1973 and knew a great deal about the operations and problems of the enterprise, was appointed. He designed, in consultation with the Public Holding

HOMELEC, an action plan. The plan introduced changes in the following areas:

A. Its Product Market. The plan introduced flexibility in the choice of suppliers and customers. However, the commitment to suppliers changed with the changes in the environment. At the beginning of the transition, the enterprise opted for spontaneous transactions with its suppliers inside and outside the country because the demands for its products were low. Under these circumstances, the enterprise found itself in no obligation to commit itself for its future conduct with its suppliers. But as imports for vehicles became more controlled in recent years, the enterprise changed its strategy. It opted to establish a stable range of suppliers with whom it hoped to maintain long-term commitment and long-term relations and perhaps joint venture as was the case with ZF, its German supplier of gear boxes and Renault, its French supplier for engines. Until 2005, the SNVI imported its equipments entering into the assembling of its vehicles from 22 suppliers where 9 were from France, 5 from Germany, 5 from Algeria and the remaining 3 from the UK, Ireland and Austria. A manager at the industrial verhicles division explained that “We hoped all our suppliers were Algerians and not foreigners because this will cost us less. This is why when the supply we need is provided by an Algerian supplier, we go to this supplier…We prefer to go to Algerians because we know them, we know their procedures and they are cheap’ (Manager, Industrial Vehicles Division, Rouiba, 2005).

Similarly, the SNVI had also opted for long-term commitment with its customers. Though 50 percent of its customers were from the public sector, the SNVI engaged with all its customers, whether public or private, to create close relationship with them by understanding their needs and bringing the changes they hoped to see in a heavy vehicle. On this point, a manager at the commercial division explained that:

> Things are not like before [the socialist period]. Before, it was us, through the directives of the Ministry of Heavy industry, who decide what vehicles to produce. The customer had to take it or leave it. Now things have changed. With Algeria opening its borders [trade liberalisation] too many models are in the market...The client is very choosy. We try our best to satisfy what he wants. We want our clients to stay loyal to us…We have introduced many modifications in our vehicles such as in their looks, in their comfort, in their strength. To give an example, we have introduced modification in the 100 V8 bus which is now called *Médina*. The modifications were introduced in its gear boxes, its engine and many others. The *Médina* was a success when we put it for exhibition. Our tractor TC 260 (4x2) has also attracted the attention of many public and private companies (Manager, Commercial Division, SNVI, 2005).

Producing a product which meets international standards had also been in recent years one of the major objectives set for the long-term business strategy of the SNVI. This urged the enterprise to introduce modern procedures and equipments in the production process. In 2005, it introduced the ISO 9001 version 2000 to create quality management at all levels of the enterprise. Because of competition from imports, the SNVI dominated in 2005 only 40 percent of the domestic market (*El-Watan*, March, 2006*)*, and its top management hoped to see the SNVI's products dominating the domestic market by at least 50 to 60 percent and to increase its exports to more countries in the African and Arab regions. Together with many top managers of public and domestic private enterprises, the SNVI top management has recently launched a campaign to encourage customers to buy the local product by using the slogan '*Made in Bladi* [that is made in my country]'.

The PGM of the SNVI knew that increasing the share in the domestic market and export would be hard to achieve unless the enterprise associated itself with potential partners. In its department for partnership, a team of experts was created to actively look for domestic and foreign partners. The technical manager explained that "Our enterprise is highly integrated. We want to build up partnership not only with foreign firms but also with the local small and medium enterprises. We want to transfer the activities which are not profitable to local enterprises. We want to concentrate only on a limited number of production lines to reduced costs and to concentrate on what we know best. These local enterprises will be our local sub-contractors and our close partners. Us! at the SNVI, we look for the result, the profit comes only later. We want to create jobs, to revive our local communities and also to reduce our expenditures on imports" (Technical Manager, Technical Department, Head Office, SNVI, 2005). In 2006, some 2,204 of the SNVI's inputs which were produced in-house were produced by some 300 local sub-contractors (*El Watan,* 2 February, 2006*)* and its PGM had been active to convince the Ministry of Industry and the Ministry of Finance to provide facilities both financial and institutional that would encourage the creation of small and medium enterprises in the country (*Le SoirAlgerie*, 2

February.2006*)* to boost the mechanical engineering industry and other linked industries and to reduce the government expenditures on spare parts imports which were growing every year. In the year 2005 alone, the import for spare parts was estimated to reach some US$25.4 million, and some of the spare parts could easily be produced by local producers.

To boost the growth of the SNVI, its PGM saw in partnership with foreign companies as the only way. For him, partnership would allow the enterprise to acquire technology, capital and open new markets and significantly to reduce the pressure of multinational competition in the domestic market. A manager in the commercial division explained that:

> Competition in our industry is strong. And to survive, companies are merging to get bigger and stronger. In a company like ours with a production capacity between 4,000 and 5,000 vehicles per year and an annual turnover of 20 to 22 billion Dinars is like a drop in a sea. In our industry, a company which produces less than 100,000 trucks and 2,000 buses is condemned to disappear from the market. Us! if we do not go into partnership, our future is not sure especially when Algeria becomes part of the World Trade Organisation. We want to bring our competitors as our partners. Now, we are in negotiations with two of our main competitor Renault Truck and BTK (Manager, Commercial Department, SNVI, 2005).

With the help of a consultant companies Boose Allen Hamilton and Ernest Young, the SNVI was diagnosed for its strengths and weaknesses. The intention was to open part of the capital of the enterprise for the participation of a block investor. The PGM was confident that the enterprise would have no problem to attract partners for various reasons. The market for heavy vehicles in Algeria was growing as a result of the government ambitious projects to develop the country's infrastructures. The country was also cheap in terms of energy and labour supplies and close to markets in Africa and the Arab countries. In addition to the advantages the government provided to foreign investors. But until 2005, only two partnerships were materialised. One with the German ZF and one with the French BTK. Foreign investors were not ready to invest in the SNVI because the enterprise was 50 percent integrated. The SNVI was diversified in many products such as different types of trucks, buses and trailers. Often foreign companies interested to invest in the SNVI were specialised companies. For example, Renault Trucks was specialised only in producing trucks, BTK was specialised in vehicle body works. The specialisation of the division of Tiaret in body works was one of the reasons why BTK was more interested to invest in this division. For a manager in the commercial division "No foreign company will be interested in invest in state within a state" (Manager, Commercial Department, SNVI, 2005). The SNVI was still burdened with surplus workers and more important of all was the strict conditions the enterprise put on partnership. The interested investor was required to bring the technology, the capital and also open new markets for the products of the SNVI. A manager in the industrial vehicles division explained that:

> We have allowed the German producer ZF to produce gear boxes in our premises at Rouiba where the SNVI holds 20 percent of the capital of his firm because ZF has a world reputation in making gear boxes and other equipment for trucks and buses. We have machines which make gear boxes but they are old. Once we bring new machines and we get certified for international quality standards, we will ask him [ZF] to use our machines, our steel and our expertise.

He added:

> Here at the SNVI, we do not allow a foreign investor to come and work. I mean, we do not accept a foreigner unless he brings something concrete. He should not come to take over the enterprise. The workers here have a strong say in the decisions concerning the future of their enterprise. They will never accept a foreigner that will use them solely to work. Workers through their representatives in the *Comité de Participation* can block the whole technical services if the management of the enterprise goes against their interests or the interests of the enterprise (Manager, Industrial Vehicles Division, Rouiba, SNVI, 2005).

Though both French companies, BTK and Renault Truck, were interested in investing in the SNVI, only BTK, after long negotiations with the PGM of the SNVI, had accepted the conditions of the enterprise. In return for buying 65 percent of the shares in the division located in Tiaret in the west region, BTK accepted to protect the existing 900 jobs in the division, to create another 250 jobs and export some of the SNVI products to foreign markets. It was forecast that, by this partnership, the division would be able to increase its production from 2,000 vehicles per year to 5,500 (*El Watan*, 13 Decembre, 2006) and to introduce some modifications in the design of the existing vehicles to make them more compatible with the hot weather conditions in the regions located in the south of the country. As for Renault Truck, the negotiations between this company and the SNVI were still going on at the time of writing this work. One of the major points in these negotiations was for Renault Truck to use the premises of the SNVI located at Rouiba to assemble trucks in return for Renault Truck to allow the SNVI products to be marketed in European markets and also to promise not to challenge the leadership of the SNVI in the Algerian market. This promise was also one of the conditions imposed by the SNVI on BTK.

<u>B. Its Organisational Structure</u>. Kono (1980: 284) defines the organisational structure of a firm as "The way the firm groups its jobs and defines the line of authority to integrate the jobs". During the socialist period, however, the SNVI, and the same can be said with the rest of state enterprises operating in the manufacturing sector, was over burdened by activities which had no relationship with its core production and service operations. The auxiliary activities, according to the human resource manager "Were intended to create the wealth of the nation" (HR Manager, HR Department, Head Office, SNVI, 2005). These were activities which were supposed to make the life of the worker at the work place easy and comfortable and fundamentally to stimulate the worker to increase production and productivity. The activities included personnel transportation, canteens, housing, cooperatives to name but few. Under the instructions of the CNPE, all public enterprises listed for partial privatisation were required to externalise these auxiliary activities to concentrate only on their core activities. The SNVI quickly embarked in the process of externalisation since 1998. The workers were given the priority to buy these activities as collectives to create new micro-enterprises that would operate as sub-contractors to the SNVI. And to make the financial and operational restructuring of the core activities feasible, the core activities were divisionalised by product. Figure 7.1 below shows the transformation that had occurred in the organisational structure of the SNVI since privatisation.

Figure 7.1. Organisational Structure of the SNVI in Pre and Post Privatisation

Organisationa Structure in 1987

ATE ⟷ **Management Board** ⟷ **FLN**

Manufacturing Department

Tasks

⇩

-Central Methodes
-Industrial Management
-Central Maintenance
-General Services
-Mecanic
-Iron Works
-Smelting-Works
-Truck Assembling
-Bus Assembling
-Metal Stamping
-Industrial Coatch-Works

Purchase / Procurement Department

Tasks

⇩

-Purchases
-Procurement
-Equipment and
Maintenance

Technical Department

Tasks

⇩

-Vehicule Studies
-Laboratory
-Quality
-Control
-Technical Purchases

Personnel and Training Department

Tasks

⇩

-Task Studies
-Personnel Development
-Personnel Development
-Social and Cultural Services
-Health Care Services

Organisationa and Information Department

Tasks

⇩

-Information
-Organisation

General Means Department

Tasks

⇩

-Prevention
and Security
-Transport
Maintenance
-Environment
and Communications

P.C.O Department

Tasks

⇩

-Budget and analysis
-Financial and accounting Audit
-Programming and management control
-Legal affairs

Exectution Department

Tasks

⇩

- Studies
- Planning and finance
- Executiion

Financial Administration Department

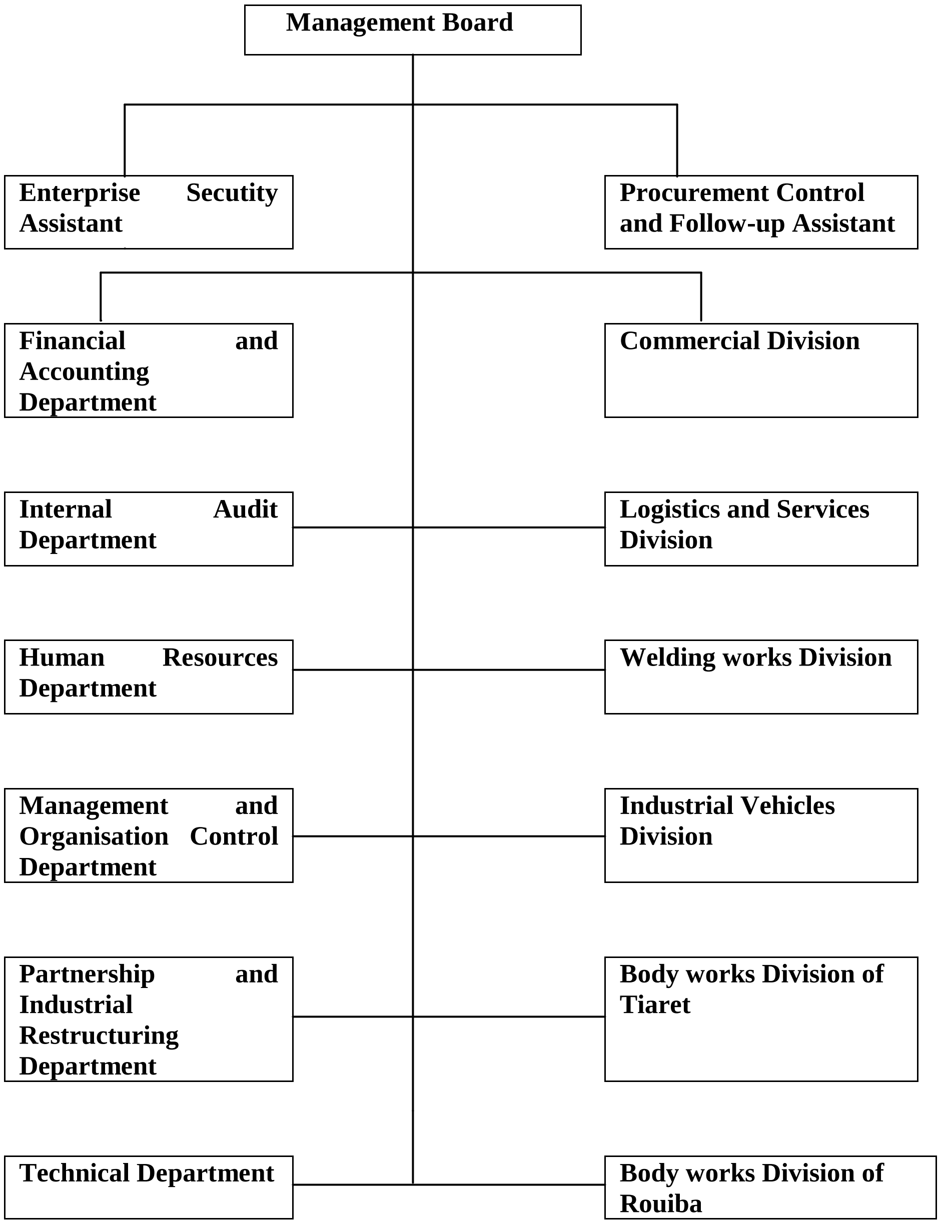
Tasks

⇩

- General accounting
- Accounting analysis
- External trade
-C.I.P.

Source: Moussa, 1987

Organisational Structure in 2005



Source: Website SNVI.dz

With the abolishment of socialism, the FLN unit and the Workers'Assemblies were also abolished from the structure of the SNVI. New functional departments were created such as the department that dealt with the security of the enterprise from terrorist attacks and vandalism, the department that elaborated plans for partnership and industrial restructuring and the department for internal auditing. The department of manufacturing was reorganised into four divisions. The intention of this divisionalisation was to reduce wastage of resources and this could be achieved by allowing the division manager to have the power to make decisions on matters which concern the division. Legally, the division was given the status of a joint stock company with the financial and operational power in the hands of its board of directors. In practice, the whole power was still concentrated in the hands of the PGM of the enterprise. But since the division of Tiaret had become a majority controlled by the French company BTK, the board of directors had assumed ample control over the decisions of the division.

What was interesting in the changes taking place in the organisational structure of the SNVI was the promotion of marketing and after sale. The marketing and after sale staff were installed within the commercial division at the head office at Rouiba and in the ten branches of the commercial division spread in different regions of the country. Because marketing was new to the SNVI, the staff in this department was still not fully experienced with techniques on how to diagnose their competitors. This was understandable. During the socialist period, marketing as understood in the private firm in the developed economies did not exist. At the SNVI, for example, the commercialisation of its products was carried out by the department of distribution and maintenance. This structure was justified under this system. The commercial manager explained that:

> Between 1970 and 1990, our enterprise was exclusively a producer, because the system in place demanded that. We had

> to produce and let the sale of our products decided by a government body. This body decided to whom our products should be sold. What I mean is that the relationship client-producer and producer-market did not exist. It was only since the late 1990s that the concept marketing started to penetrate in our enterprise (Commercial Manager, Commercial Department, Head Office, SNVI, 2005).

With no directives from the sponsoring ministry to whom to sell, the staff in the marketing department was left to look for customers on their own. Though 50 percent of customers were state enterprises and institutions, the staff had developed a strategy to increase the number of private customers in the domestic market and to increase export to African and Arab countries. They carried out surveys to understand how the Algerian customer saw the products of the SNVI and what improvements they wanted to see in these products. Also promotion of the image and products of the SNVI had been done through the distribution of posters in different companies and to the general public in addition to organising exhibitions for the products of the SNVI in the country and in some African and Arab countries. A manager in the commercial division explained that "We have been able to fill our order book until the year 2009. We are trying to grow. But I can say we are not growing fast. We are still a small enterprise with no more than 5,000 vehicles per year. At the moment, we are not trying to compete head to head with Chinese or American products. We are trying to gain back some of the shares of our market that we lost in the 1990s. I can say that we have through the 35 years of the existence of our enterprise, we have gained enough experience in our industry and what we need now is some modifications in our products to meet international standards" (Manager, Commercial Department, SNVI, 2005). On this point, another manager added:

> Our market and our financial position do not allow us to make major innovations in our products. It is not easy to move from one system to another. You really need a period to adapt. To create new products, you have to transform the whole production machineries, equipments, buildings and skills. I wanted to say, you need huge investments. And investments as you know need a lot of money. In terms of money, we are not self sufficient. In fact, we had to borrow money to carry out the small investments we had in recent years. Even the banks, they have not been very helpful like before. We are at an edge of break up with them. They always ask us where is your added values. The banks today are happy to provide credits to enterprises with high positive added values (Manager, Industriel Vehicles Division, Head Office, SNVI, 2005).

<u>C. Its Employment Policies</u>. Until 1990, the employment practices at the SNVI were governed by the SGT. The application of the SGT had proved to be rigid and incompatible with the transition to the free market economic system. The human resources manager complained that:

> The system did not work since it was first implemented in this enterprise. I can give you an example. All functional managers were paid the same salary. Because the worker's effort to produce a task was highly considered in the classification of salaries, a worker working as a black smith was classified better than a worker working as an electro-mechanics. Also, because jobs were classified, the prospect for a promotion was almost non existent. There was little enthusiasm among people especially those with professional and managerial skills to put themselves forward in programmes for training and development since these programmes would not contribute to their job promotion. Now, things are different. People can be promoted or demoted. Their salaries can be increased or decreased. The environment has changed a lot. Today, there is a tough competition in the market over professional and managerial skills. Companies that offer high salaries, high bonuses, housing, and training are taking the best people in the labour

> market (HR Manager, HR Department, Head Office, SNVI, 2005).

In 1990, the government introduced the Law no.90-11 dated 21 April 1990 which abolished the SGT and replace it with a more flexible form of relationship between management and workers. Workers at all level of the enterprise even those with managerial positions became subject to work contracts. The work contract can be permanent, part-time or temporary depending on the nature of the activity the worker is supposed to accomplish. What was more interesting in the development taking place in the management-workers relationship since 1990 was the right of management to downsize the number of workers in the enterprise. According to the Law 94-09 dated 26 May 1994 (*Code de Travail,* 1997), which is in application to the present time, managers are allowed to downsize the number of their workers in a large number if the economic and financial situation of the enterprise justifies it. The law also clearly points out that the downsizing should not take place unless discussed and approved by the worker representatives in the *Comité de Participation* (Participation Committee) and the trade union. It is specified in Clause 7 and 8 of this law that managers should only take such a drastic decision after one or all the measures which have been mentioned in these two Clauses have been implemented, such as reducing the amount paid for bonuses, freezing salaries and promotion, retraining workers affected by the downsizing decision or their placement in other enterprises in the same sector, transforming full time workers into part-timers, the non renewal of workers' contracts with limited period, and put workers who approached the age of retirement for an early retirement. To encourage managers to avoid massive downsizing, the government promises to provide financial support for the enterprise that engages in projects that create activities to re-employ the workers that may be affected by downsizing. The enterprise is also promised to be exempted from paying a number of taxes and to pay low dividends to the state treasury (see the experience of many public enterprises on downsizing published by the MIRP, March 1995). Since the introduction of this law, the SNVI, compared to Eriad Alger and Saidal, was aggressive in the reduction of the number of its work force. The number of its workers dropped from 19,000 in 1987 to 15,000 in 1995 or 21 percent. The number reduced further, as table 7.6 below shows, with the implementation of its plan for organisational and financial restructuring introduced in 1998.

Table 7.7. The changes in the number of workers in the three enterprises during the period (1997-2002)

Year / Enterprise	1997	1998	1999	2000	2001	2002
SNVI	13,520	10,300	9,209	9,165	8,761	8,119
Eriad Agler	5,678	5,455	5,195	4,888	4,644	2,788
Saidal	____	____	2,800	3,207	3,412	3,563

Source: Data analysis.

The action plan of the SNVI to reduce its work force did not seem to be a plan well thought through. The plan did not prevent skilled workers from being laid off including some with long experience in managerial positions. The workers were laid off through the *départ volontaire* (voluntary departure) and particularly through the *retraite anticipéé* (anticipated retirement). According to the Décret Legislatif no. 94-10 dated 26 May, 1994 relative to the anticipated retirement, only male workers who are over

50 years old and female workers who are over 45 years old should be covered by the anticipated retirement scheme. The amount of payment provided for this category of workers depends on the number of years that the worker spent in his/her actual enterprise and other enterprises and also the years left before his/her legal age of retirement. When only less than five years are left for the worker before he/she legally retires, this worker is entitled for a total payment of thirteen months salary. When only five or more years are left, he/she is entitled for sixteen months salary. And when only eight or more years are left, he/she is entitled for nineteen months salary. At the SNVI, however, any worker who reached 50 years old or above and who had 20 years of work experience in the enterprise had to be selected for the *retraite anticipéé.* The human resources manager explained that "The *retraite anticipéé* did not distinguish between workers skills. Whether the worker was good or bad, whether skilled or unskilled, they were all listed for lay offs. It was very painful. The people we lost were generally people with academic degrees with long experience of know-how. These people have left us and today we have difficulties to replace them. Now we are suffering from a big shortage of people with professional and technical skills" (HR Manager, HR Department, Head Office, SNVI, 2005). The technical manager added:

> When a worker spends twenty years in his jobs, this is the time when the enterprise starts to benefit fully from him because he has accumulated enough experience and professionalism in his skills. He can do his job with his eyes closed. We should have kept these people. Now, what we are doing, we are bringing young people. We train them how to do the work. It takes three to four years to train them. But this training is not enough. We should have at least kept our old professionals to

> transfer their long experience to the younger workers. This is how I look at things (Technical Manager, Technical Department, Head Office, SNVI, 2005).

Because of the changing conditions in the market, the SNVI, like the rest of other enterprises in the country, had introduced the concept of Human Resources Management. A Human Resources department was installed at the head office in Rouiba and another one at the body works division of Tiaret to replace the personnel and development departments. At the division, the human resources manager had little autonomy to take decisions concerning the personnel of the division. He had always to consult with the human resources manager at head office. And though the name of the departments had changed, many of the practices of the SGT were still applied by the human resources departments. Like under the SGT, the salary of a worker was still determined based on five criteria: The academic qualification, the type of responsibility attached to the task, the mental and physical effort used in the task, the conditions in which the task had to be carried out and other constraints surrounding the task. Workers also enjoyed medical health services because the Law no. 88-07 dated 26 January 1988 relative to hygiene, security and medical care was still in application until today. Each enterprise whether private or state is required to provide medical care services to its workers free of chages. The enterprise was also required to provide social services including housing (*Décret no. 82-179* dated 15 May 1982 relative to the National Fund for Social Services is still in application until today) to its workers to reduce the problem of workers mobility. As it was understood from the interviews, workers at the SNVI did not benefit from housing benefits for a long time On this point, it is interesting to say that workers became more worried to keep their jobs than to ask for social benefits.

The job opportunities at the SNVI were few but the demands for them were tremendous. The human resources manager explained that "The human resources manager finds it tough to choose the right candidate. I can show you now [taking a box from the cabinet], in this box I have received almost five thousand applications for one vacancy. All the applicants have high university degrees and long experience. They almost all fit the job description and it is difficult to make a decision" (HR Manager, HR Department, Head Office, SNVI, 2005). Because of this huge competition over few jobs available, the selection of candidates was, according to one worker of the SNVI "Very often based on who you know and not on what you know and the majority of the recruited candidates were offered permanent jobs". There was a widespread belief amongst many of the managers interviewed that offering permanent contracts to workers would increase the commitment of these workers to the enterprise and would increase production and productivity. In 2005, the total number of workers at the SNVI was estimated to fall around 8,200 workers and around 7,300 or 80 percent were permanent workers and only 800 were temporary. Even when some of the production units became temporarily idle for shortage of customer orders, workers were not laid off but transferred to other production units or their working hours were reduced. The top management of the SNVI had been careful not to repeat the mistake of the 1990s to resort to workers downsizing when an economic or financial problem arised.

To improve production and productivity the top management introduced a compensation system based on the nature of activities of the worker and his/her performance. After long discussions with the *Comite de Participations* and the UGTA's representatives, higher salaries were allocated to highly skilled workers in production and also to workers in the financial, marketing, technical and managerial positions. Bonuses were also paid for collective and individual performance. Still, the salaries at the SNVI were less than those paid in many large state-owned enterprises like SONATRACH and in the private firms.

7.4.2. Eriad Alger

7.4.2.1. Its Top Management Perception of the Market

Like the SNVI, Eriad Alger was also provided with some institutional and economic supports by the government such as restrictions on imports for pasta, flour and semolina as well as setting a higher price for flour which had allowed Eriad to make some profits. Between 1994 and 1999, Eriad Alger sale revenues increased from 7,060 million dinars to 18,306.5 million dinars (*Bilans de Synthèses*, 1994 and 1999). But the good performance of the late 1990s was temporary. Since 2000, Eriad Alger started to enter into serious financial problems for various reasons. It was surrounded by many domestic competitors. The entry and exit barriers in the industry in which Eriad Alger operated were very low. In 2004, more than 300 mills were operating in the country. These were public and private enterprises. As the government tried to encourage the expansion of the private sector and also tried to keep the market for bread stable, facilities such as financial credits were provided to investors wishing to open medium or small enterprises in milling. The market had become saturated with flour by two and a half times what the market demanded. Because of flour surplus in the market, competitors had to diversify to survive. According to the procurement manager "Some of our private competitors have been unable to sell their flour in the market and have to diversify their products in order to survive. The group *Sim*, for example, which is one of the strongest private competitors in the market, in addition to producing large quantities of flour and semolina, it was able with its strategy of diversification to capture between 12 and 18 percent of the market for pasta and couscous (Procurement Manager, Head Office, Eriad Alger, 2005). The markets for couscous, pasta, biscuits,, chocolate and yeast were profitable because their prices were fixed by the market and though Eriad Alger had the capacities and the experience to produce these products, it did not, however,, take advantage of these resources. In the words, of the marketing manager "Though Eriad Alger was losing its shares of the market for all its products, no new products were introduced, not even modifications in the existing products' (Marketing Manager, Alger Division, Eriad Alger, 2004). The same point was shared by the procurement manager when he said that:

> The same products which were produced during the socialist period continued to be produced in the transition. Recently, things have changed. Activities for producing pasta and couscous have been abandoned. Biscuits and chocolate of Cherchell have been sold. Our core activity now is milling tender wheat to produce flour (Procurement Manager, Head Office, Eriad Alger, 2005).

The concentration on producing flour was not a strategic choice initiated by top managers of Eriad Alger. Rather, the choice was imposed upon the enterprise by the government. All managers felt that their enterprise was a hostage of the government bureaucracy. Though Eriad Alger had been transformed into a joint stock company since 1990, the government still looked at the enterprise as if it was still socialist. Its PGM was still subject to directives emanating from the MPPI, the CPE and the Ministry of Industry. For the general secretary:

> Very often, our role is simply of a mail box…They [the various ministers] do not consult us in order to participate in decisions which are related to investments at Eriad Alger, or on decisions regarding partnership or privatisation…In the reality of things, we are actually the ones who they should be involved (General Secretary, Head Office, Eriad Alger, 2004).

Though the PGM, in consultation with the board of directors, was allowed to make decisions concerning the replacement of equipment and machineries or concerning the personnel practices like recruitment and promotion, decisions concerning introduction or modification of a production line, partnership or privatisation, these had to emanate in the first place from the government. The tight control of the government over these major decisions was one of the major causes of the conflicts between the government and the PGMs of

Eriad Alger and this had very often led the government to replace them. As previously mentioned, the PGM of Eriad Alger had been replaced eighteen times in a very short period, 1995-2000. This continuous replacement demoralised senior managers at all levels of the enterprise to take initiatives to set clear objectives for medium and long-term development of the enterprise. Their demoralisation was clear in the absence of any action plan to restructure or privatise. Though the enterprise was listed for privatisation since 1995, until 2000, the enterprise did not put in place special units or committees for selecting the activities for partial privatisation, or for quality improvement or for personnel development. Also, though the enterprise was continuously incurring losses in the shares of its markets for flour, semolina and other products, its top management did not take any initiative to understand the strengths and the weaknesses of Eriad Alger's competitors at least of those competing in flour, which became Eriad's core product. On this point, the marketing manager explained that:

> True, we have a list of our competitors at national level. But we do not have information on the strengths and weaknesses of these competitors…We do not have what we call 'economic spying'. We do not have a department or a unit which takes charge exclusively of diagnosing what made our competitors strong, what are their strategies and all that (Marketing Manager, Marketing and Commercial Department, Head Office, Eriad Alger, 2004).

To speed up the process of privatisation, a new PGM, Mr. Mazidi, was nominated in late 2000. Under his leadership, action plans were developed to restructure the financial and organisational position of the enterprise. This PGM had also attempted in many occasions to put pressure on the government to bring some changes in the regulations controlling the industry in which its enterprise operated. In the resolutions taken in the year 2002 at the annual meeting of the general assembly of the enterprise and at the various meetings of the board of directors of the parent enterprise (Eriad Alger, 2002), top management called the government to:

- Lift the restriction imposed on Eriad Alger to be exclusively supplied for its raw material -wheat- by the state-owned supplier, the OAIC. It called for the right of Eriad Alger to freely choose the suppliers they considered adequate in terms of quality and price;

- Lift the control on the price of flour and let the market decide its price;

- Put control over the unfair competition practiced by many private firms with whom Eriad Alger competed.

Unfair competition by the private sector had been mentioined not only by managers of Eriad Alger but all managers interviewed whether at the SNVI, Saidal or the UGTA. They all regarded competition from the private sector and particularly from the informal sector very damaging to the survival of the state and privatised state enterprises and the whole national economy. In the market for flour, for example, because the price of flour was regulated by the government for both public and private enterprises (*Ministère de Commerce*, October, 2006), to increase their turnovers, many private competitors resorted to illegal practices such as selling without receipts to avoid taxation or bribing government quality controllers to use cheap and low quality wheat It was estimated that about 50 percent of turnovers of some private firms in Algeria was due to these types of illegal practices. Though the legislation on competition had existed since 1995 with the introduction of Ordinance no.95-06 dated 25 January, 1995 and amended in 2003 by Ordinance no.73- 43 dated 1 July, 2003, the *Conseil de Concurrence* (Competition Board) had been until the time of writing this piece of work unable to control competition especially of the informal sector *(CCNM,* June, 2004*)* whose contribution to the GDP was estimated in 2003 to reach some 30 percent and may be more *(CCNM,* June, 2004: 4*).*

The tight control of the government over the management of Eriad Alger and the weakness of the government to regulate the industry of wheat processing and its derivatives had cost Eriad Alger a high price. In only 3 years, or between 2002 and 2005, the shares of its market for flour dropped from 80 to 3 percent. Finding itself with almost no market shares and in serious financial difficulties, Eriad Alger had given up its activity as producer of flour. From 2005, its main activity was to process wheat for its strong private competitor *Blanky*. "We are now a service enterprise", the procurement manager explained. He added "What we do now is that private firms bring us their wheat and we mill it for them and they pay us. We are doing this type of service because we do not have the money to buy our own wheat. We cannot borrow money from the bank because we are already with heavy debts" (Procurement Manager, Procurement Department, Head Office, Eriad Alger, 2005). In 2005, Eriad Alger was in so serious financial troubles to a point where it was not capable to pay its workers including division and plant managers and some staff at the head office. For the secretary of the enterprise general secretary “We have not been paid for four months. My father had to give me money to pay for my transport. You see, I am working for free. And if things will stay as they are now, I am going to look for work in the private sector” (Secretary, Head Office, Eriad Alger, 2005). Unable to secure financial help from the government and loans from the bank, the PGM decided to sell the 54,700 square meters of land attached to the enterprise division located in Corso in order to pay for the arrear salaries.

7.4.2.2. Restructuring of its Internal Operations

A. Its Product Market. There are always opportunities in the market that can help the survival of an enterprise. The opportunities which were available to Eriad Alger were to increase the production and quality of some of its products like biscuits, chocolate and yeast which were in great demand. These products could have compensated for the low turnover yielded by the sale of flour and semolina and would have increased the number of its customers which were in steady decrease. In all the annual action plans of Eriad Alger produced between 2000 and 2004, modifying the existing products of the enterprise or introducing new ones seemed to be one of the major priorities of the enterprise top management. But the CPE and the MPPI were persistent that Eriad Alger should concentrate on producing flour and semolina and other products like pasta, couscous, biscuits, chocolate and fresh yeast should be sold to the private sector. Since these activities were slated to be sold, top management was unwilling to make investments to improve the production and quality of these products. In 1999, its division for fresh yeast production located at Oued Smar was closed as well as 3 out of the 4 production plants for biscuits/chocolate division located at Cherchell. For the marketing manager:

> The reason why Oued Smar division was closed was because we did not have the treacle which is the raw material to produce yeast. The treacle is the material which allows the yeast to ferment. We could have easily substituted treacle with dates. And as you know, we have plenty of dates in the country. With this substitute, we could have avoided the closure of the division and also we could have produced yeast cheaply saving thousands of foreign currency. What I am telling you now is what we had already suggested to the state authorities but they did not listen to us. So, we had to close the division and transfer its workers to other production plants (Marketing Manager, Head Office, Eriad Alger, 2004).

In addition, Eriad Alger started to lose its market place for flour and semolina because its competitors were winning its traditional customers through quality. For flour, for example, the number of its customers in the form of retailers dropped between 1994 and 1998 from 44 percent to 13 percent and the wholesellers represented only 30 percent of its total customers. For many managers interviewed, it was difficult to bring bach these customers because the flour of Eriad was poor in quality. The mills of Eriad Alger were in their majority equipped with obsolete technology and the wheat used in the production of flour did not meet the international standards in terms of quality. More significant, because Eriad Alger was not allowed to diversify its suppliers for wheat, this made it accept any quality of wheat supplied by its main and only one supplier, the OAIC. Without any exception, all the managers interviewed criticised the government imposition to use one supplier. For the production manager “The prices of the OAIC are more expensive than other suppliers and the quality is not very high…Sometimes our production plants stop running because the deliveries from the OAIC came late. This is one of our major problems” (Production Manager, Corso Division, 2004). Many of the managers could not figure out the logic behind the government imposition to buy from one supplier. For the marketing manager “Even if Eriad Alger wants to compete with its products for pasta and biscuits, it will be impossible to compete because we have to use the flour and semolina we produce ourselves which is not of the quality required for this type of products [pasta, couscous, biscuits]…In this business, you have to be flexible in the choice of the suppliers of your raw materials. Our competitors are free to buy their wheat from anywhere they want, from overseas or from domestic suppliers. Us! Unfortunately, we cannot because the state forbids us to do so” (Marketing Manager, Corso Division, Eriad Alger, 2004).

In 2000, a plan to improve the quality of flour was elaborated. Ten production plants were listed to introduce new technology and procedures in order to improve the quality of their flour. These were Aissat Idir, Complexe Blida, FPA Blida, Smailia, Semoulerie Corso, FPA Corso, Tadmait Baglia, Aiso-Bessam and Bouira. This project for quality improvement was first implemented at Aissa Idir. It was wholly financed by Eriad Alger and cost the enterprise around 3,086,074.5 dinars. This production plant obtained its quality certificate ISO 9001 version 2000 in 2003. The improvement in the quality of flour of this plant improved Eriad Alger’s image among the baker in particular. In 2003, around 99 percent of its customers were individual private bakers and fear of losing this potential customer, Eriad Alger engaged in a long-term commitment with this type of customer. Through its marketing unit called *Cellule d'Ecoûte du Client* (Customer Listening Cell), discussions with this customer took place on regular basis to specify any problems with the specifications of flour and corrective actions were taken quickly. More important, hoping to keep its customers, Eriad Alger had embarked, since 1998, in a strategy that allowed its customers to buy by credit not by cash as before. With this purchase facility, its account receivables steadily increased. In one year alone, its account receivables increased from 280 million dinars in 1998 to 1,651 million dinars in 1999 and to prevent losing these customers to the private sector, Eriad Alger had also allowed them to pay their credits at any time they saw it suitable.

Desperate to increase its share of the market, all the action plans elaborated by the enterprise called for partnership with private investors. Partnership was regarded as an instrument that would improve the financial, technological and management position of the enterprise. The general secretary explained that his enterprise could have saved its market place if the CPE had allowed the enterprise to enter into partnership with some potential investors. The French firm *LeSaffre* was interested to enter into a joint venture with Eriad Alger to produce and market fresh and dried yeast in conformity with ISO 9002 in the division Oued Smar. Interested too in having partnership with Eriad Alger was the two Algerian firms ENPC and Complexe Jute Bejaia. Their business plan was to improve the packaging activities of Eriad Alger. Negotiations for a business deal with *Lesaffre*, for example, were going on with Eriad Alger for two years but they had never been materialised. The general secretary explained that:

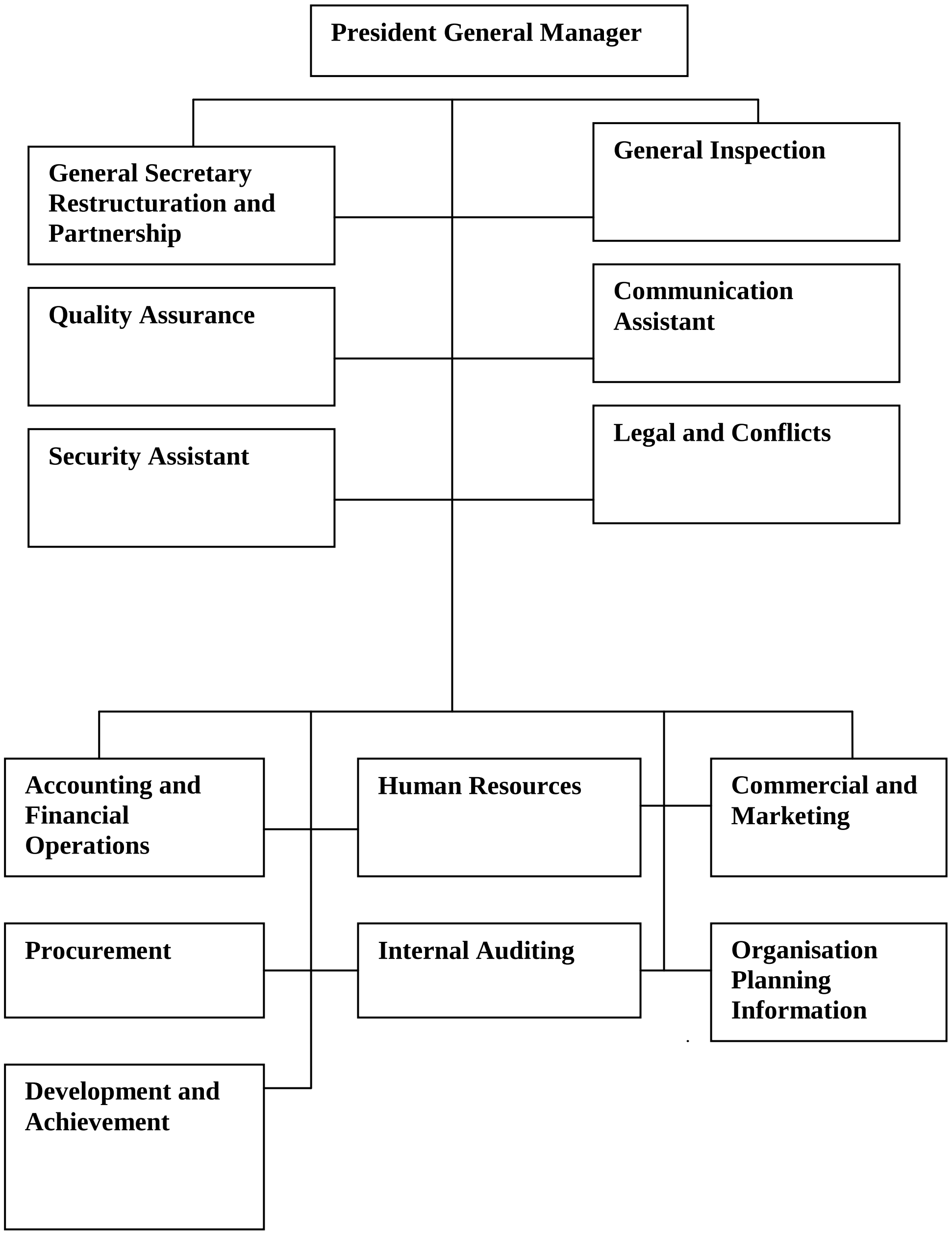
> When there is a business opportunity, the matter should be dealt with promptly. The interested investors will not wait until you take permission from the state bureaucracy. These people are not used to this type of bureaucratic procedure. We signed a protocol with *LeSaffre.* We submitted our report about our meeting and negotiations with *LeSaffre* to the CPE and the MPPI. More than two years have lapsed and we are still waiting for an answer. This investor will ask himself who is my interlocutor. Is it the PGM, is it the SGP or is it the Ministry of Participations? Finally, we lost this opportunity of partnership (General Secretary, Head Office, Eriad Alger, 2005).

The PGM of Eriad Alger further explained that "Eriad has viable capacities, has a personnel who is ready to learn new techniques and improve their expertise but we cannot do anything because every time we wanted to move a step forward people from above moved us two steps backward. We need to be free when it comes to designing the strategy of our enterprise the way we want to see it in the future" (PGM, Head Office, Eriad Alger, 2004).

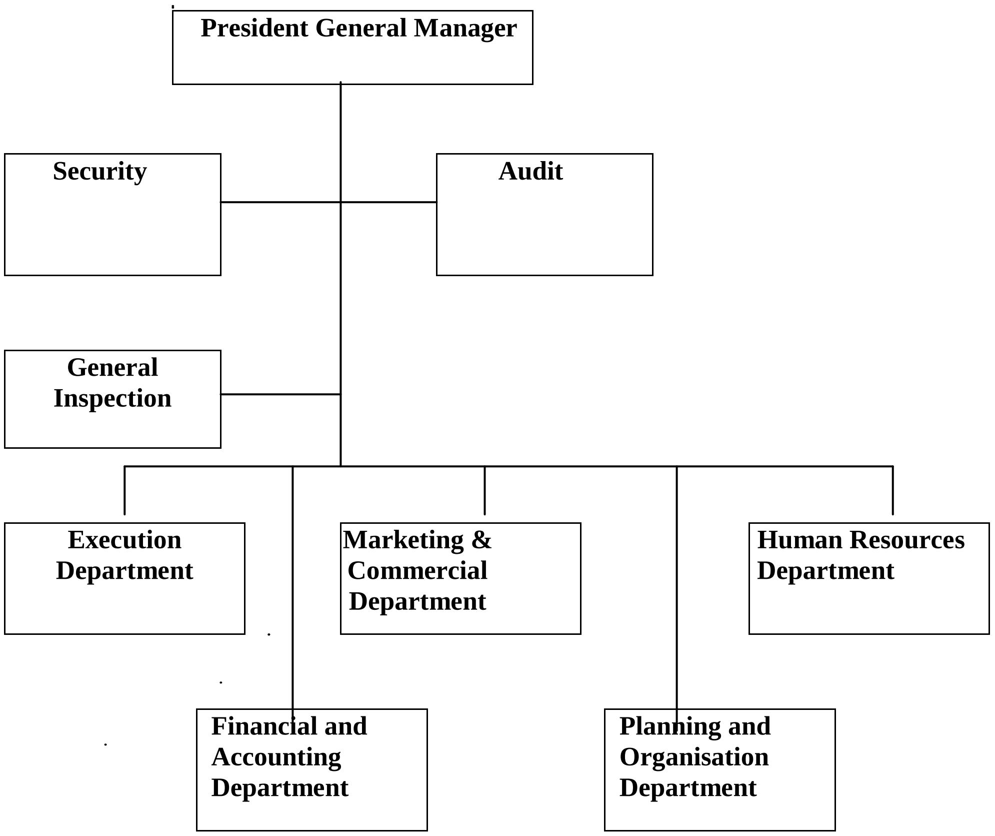
B. Its Organisational Structure. Under the instructions of the CNPE, Eriad Alger was requird to externalise its auxiliary activities, to divisionalise its core activities and to instal a marketing department. By this organisational restructuring, it was hoped to create better control of resources, better integration between the different operations and significantly to make the enterprise profitable in order to make it attractive to investors for partnership or for total privatisation. The enterprise embarked in organisational restructuring in 1998 by restructuring the head office and divisionalising its core activities. By the end of 2001, the structure of Eriad Alger looked like figure 7.2, below.

Figure 7.2. Organisational structure of Eriad Alger in 2001

Head Office Organisational Structure



Division Organisational Structure



Source:: Eriad Alger, 2000

Its core activities were divisionalised into seven divisions. These were: Beni-Mezghenna, Tell, Corso, Tizi Ouzou Mills, Hamza Mills, Oued Smar and Cherchell. And in 2002, the enterprise started to sell its unproductive assets where the majority had to be sold to Eriad's workers. The sale covered 124 distribution outlets and transportation vehicles which benefited 534 workers. Table 7.8 and 7.9 below show the number of assets sold and the number of workers who benefited from the sale.

Table 7.8. Number of disttibution and transport vehicles sold and the number of workers who benefited from the sale

Plants	No.of warehouses	No. of sale points	Total workers
Alger	16	_	94
Tizi Ouzou	06	04	40
Blida	03	01	71
Corso	07	01	56
Bouira	02	05	40
Tipaza	03	01	44
Total	37	12	345

Source: Eriad Alger, March 2002

Table 7.9. Weight of vehicles for sale and the number of beneficiaries

Plants	3 tonnes	7 tonnes	8 tonnes	10 tonnes	12 tonnes	20 tonnes	Total	No. of workers
Alger	06	-	12	11	02	-	31	139
Tizi-Ouzou	10	-	-	-	-	-	10	10
Blida	05	02	-	-	-	-	07	07
Corso	04	-	04	01	09	03	21	27
Bouira	01	-	01	-	-	-	02	02
Tipaza	04	-	-	-	-	-	04	04
Total	30	02	17	12	11	3	75	189

Source: Eriad Alger, March 2002

Workers were also allowed to buy Eriad's five lounges, seven canteens, two cooperatives, four mills, one pasta production plant and one biscuit plant in addition to houses owned by Eriad Alger. The beneficiaries were required to transform the production and service assets into micro-enterprises where some of them had to act as Eriad's sub-contractors. One important point to mention is the fact that all the production plants sold to workers were in a very desperate condition. Their maintenance was very costly because they were equipped with obsolete technology and their technology went back to the eighteenth and early nineteenth centuries. For example, the production plant Amirouche dated back to 1895, Beni Mered to 1884, F.P.A. Alger to 1901 and les Frères Ameur to 1914. These mills, the production manager explained "Often stop running for a month or more until we get the spare parts and the majority of the spare parts do no exist in the market anymore" (Production Manager, Alger Division, Eriad Alger, 2004).. What is interesting to say is that the spin off of unproductive activities was until 2005 still not fully complet. Many divisions remained still overburdened with unproductive assets which many division managers had called for their sale.

Though the essence of divisionalisation as explained by the PGM of Eriad Alger was to give complete autonomy to division managers to decide on all operations and financial expenditures in their divisions, in practice, all the decisions concerning the divisions had to emanate from the head office. The bureaucratic style of management which was practised during the socialist period was still strongly practised at Eriad Alger. In the two documents entitled '*L'entreprise Mère Eriad Alger'* and *'La Charte des Responsabilités et des Niveaux Relationels Intra-Groupe Industriel Eriad-Centre'* of July 1998, it was clearly stated that the head office was the only office which had the right to elaborate decisions concerning the production, marketing, development, procurement, distribution and personnel for all the divisions. The tight control created, without exception, a clear resentment amongst the division managers interviewed. For the division manager of Corso:

> It is always the GSE…in terms of organisation. We do not have the feeling that there is autonomy in decisions. Judicially, we are autonomous entities. But in practice, there is none. Even at the functional level, they [the CPE and the MPPI] have reproduced the old organisational system [the socialist system] (Division Manager, Corso Division, Eriad Alger, 2004).

Another manager added:

> Very often, the budgets allocated to divisions are recalculated at the head office because of the failure to have the right information. This always leads to modifications and readjustments in the production plans at the production plants (Manager, Corso Division, Eriad Alger, 2005)

To make sure that both the division and production managers did not deviate from the production plans allocated to them by the head office, these managers were required to submit daily to this office the stages of the production and the stocks almost in the same way as things were done during the socialist period. When asked the reason for this tight control over the divisions, especially production, the answer of the general secretary was simply "To make sure the resources are not wasted, otherwise we have to do a lot of explaining to our owner [the government]" (General Secretary, Head Office, Eriad Alger, 2005).

The tight control over division and production managers as well as functional managers had clearly demoralised these managers from taking initiatives to make changes to improve the operations of their divisions or departments. They were also demoralised for another reason. Because of the continuous replacement of their PGM, these managers had become accustomed to see that every time a PGM was appointed, the enterprise would see new changes introduced in its policies and internal regulation and it would be a waste of time to propose or design an action plan to introduce changes. According to the assistant manager at the UGTA "Every time there is a new PGM, there is a change in the way the enterprise does its daily business. He will say [the PGM] to his staff throw, throw, throw. He wants to prove that he is better than his predecessors" (Assitant Manager, Department of Conflicts and Social Affairs, Headquarters, UGTA, 2004). The negative impact of the continuous replacement of the PGM on the internal development of the enterprise was clear in the continuous postponement of some investment projects launched by Eriad Alger. One of the projects to mention here was the project for water treatment at the division of Oued Smar. This project was launched in the late 1990s and was postponed many times. It was put for execution and was finally finished only a few months before this research study started.

Important too, one would expect that because Eriad Alger was perpetually losing its shares in the domestic market, it would have at least given some autonomy to the marketing staff in order to mobilise them to take active action and study the market and design ways to promote Eriad's products. In the document entilted '*Organisation de l'entreprise Mère, Eriad Alger'* of June 2000, it was clearly stated that the main tasks of the department of marketing was to:

- Study every opportunity to create new markets with new products;

- Promote the image of the enterprise and its products;

- Look for opportunities for exports;

- Make sure that the divisions implement the marketing strategy elaborated by the head office.

In practice none of these tasks were carried out. The manager of marketing at the head office insisted that since the function of marketing was introduced in the enterprise, there had never been one single research of the market whether by the marketing department at the head office or the marketing departments in the divisions. The only thing the enterprise had created recently was, he explained “A *Cellule d’Ecoûte du Client.* The staff of this *Cellule,* located here in the department of marketing in this head office, gets in touch with bakers. They usually discuss with them whether they are happy with the flour we sold them. Often, the bakers are happy with the flour produced by the production plant *Aissa Idir* because this plant has introduced quality standards in its production operations and has recently been certified for quality. Apart from this, we have not done much in marketing” (Marketing Manager, Marketing and Commercial Department, Head Office, Eriad Alger, 2005). Three reasons might explain this inactivy of the marketing department. First, there was the lack of marketing skills amongst the staff of this department. Second, there was the lack of money to finance the marketing activity. For the procurement manager “We do not have money to promote Eriad products. If you look in the TV, you always find the biscuit of *Blancky*, the couscous of *Sim* and the pasta of *laBelle.* You never see our products. Our competitors invest a lot in promotion. Us, we do not. If we are not even able to buy the raw materials, how can we think to spend on promoting our products. It is not possible, is it (Procurement Manager, Procurement Department, Head Office, Eriad Alger, 2005). Third, Eriad Alger did not have a department for research and development that work closely with the department of marketing to innovate new products. Eriad Alger had a department called *La Direction de Développement et de Réalisation* (Development and Achievement Department) which was created when the SNSEMPAC was in existence. The actual functions of this department were:

- To carry out studies on what technology the enterprise should introduce in the production plants;

- To provide technical advice to top management;

- To control the implementation of the projects.

Clearly, this is a technical department and its responsibility was to elaborate projects to introduce new equipment and machineries to increase the level of production in particular. The department was responsible for introducing the development projects in the production plants Aissa Idir, Ain Bessam, Tadmait and Smailia.

C. Its Employment Policies. Despite the steady loss of its market shares, the top management of Eriad Alger did not downsize the workers surplus in his enterprise to reduce the costs. Between 1987 and 1995, the number of its work force dropped from 6,728 to 6,642 or by only 86 workers which was very negligible. Even when the enterprise was put for organisational restructuring in 1998, the number stayed almost stable. It was only in 2002 when, as table 7.7 above shows, almost half of the work force was reduced as part of the action plan to prepare the divisions and production plants for sale. Like in the case of the SNVI, the majority of redundancies were carried out through the *départ volontaire* and *retraite anticipée.* With the *départ volontaire*, the manager entered into negotiations with the worker. The negotiations as explained by the human resources manager "Was to convince the worker to leave the company in return for payments…Handsome amount of payments were given in this scheme" (Human Resource Manager, Alger Division, Eriad Alger, 2004). Out of a total of expenditures on retirement of 176 million dinars for the year 2002, 51 million was spent on *départ volontaire* (Eriad Alger, September, 2003). The most affected by the redundancy were people in the department of Security, as there was less need for them since terrorism had almost stopped, and also people in the production plants especially among semi and unskilled workers as modern equipments were introduced in some mills. Skilled workers were hardly touched. In the words of the human resources manager "Our company made sure to keep our professional and skilled workers because our company depended on them for its survival. We wanted to keep these people because it is not easy to find them in the market. The private sector is stealing the best people. They pay them more than us" (Human Resources Manager, Alger Division, Eriad Alger, 2004).

To create flexibility in its employment practices, Human Resources departments were installed at the head office and division levels. But the fact remains that HR decisions and policies were centralised at the head office. The HR manager at the head office elaborated in consultation with other functional managers in the head office the short, medium and long-term HR strategies for the whole enterprise. No new recruitment and training and development of workers were allowed to be carried out at division and production plants levels unless discussed with the HR manager at the head office and authorised by this manager.

While the label of the department dealing with employment practices changed from Personnel and Human Relations to Human Resources, the procedures and techniques for job classification and workers recruitment, selection and remuneration remained still influenced by the SGT. The salary of a worker was calculated on the academic achievement required for the job, the type of responsibility attached to the job, the effort to do the job, and the constraints surrounding the job.

In addition, the influence of the SGT at Eriad Alger was also found in the classification of work positions in the enterprise. Workers were divided into 20 grades: unskilled workers were graded between 1 and 9, semi-skilled between 10 and 13 and professional and managers between 14 and 20. This meant that all division managers were paid the same basic salary, all production plants managers were paid the same and so forth and all the managers had permanent contracts. In fact, in the year 2000, out of a total number of 4,888 workers in the whole enterprise, more than two-third, or 3,634 workers, were permanents. The human resources manager did not see the necessity to give determined contracts to workers. He explained that "These people have been with us for years and we did not see the necessity to change them from permanent to temporary contracts like many other enterprises have done. See what happened to these enterprises. Once you give a worker a limited contract, he will leave. As I said before, we do not want to lose our workers especially the skilled ones" (Human Resources Manager, Alger Division, Eriad Alger, 2004). To keep workers in the enterprise and increase their productivty, the PGM decided to buy a plot of land of 5 hectares in the area of Boumerdès to build flats for production and some division managers. What was surprising was also the fact that rather than reinvesting the profits that the enterprise made in 1999, these profits were invested by increasing the salaries of employees in the head office and some division managers. Between 1999 and 2000, the average salary of an employee at the head office increased from 39,112 dinars to 65,348 dinars. And though the division of Oued Smar for yeast production and the division of Cherchell for biscuits/chocolate production were almost at a halt, the average salary of their employees increased from 26,799 dinars to 28,079 dinars.

Important, too, to mention was the fact that the enterprise was still providing almost the same indeminities provided during the socialist period. On the top of his/her basic salary and the bonuses paid for individual and collective performance, a worker could receive additional incomes through various indemnities. The enterprise provided twenty indemnities. These were:

- The Till indemnity. This was paid to workers who had direct contact with money such as workers who dealt with buying and selling. The amount of indemnity paid to the worker depended on the amount of money he/she dealt with. When the worker dealt with an amount above 500,000 dinars, for example, he/she received 250 dinars each month;

- The Professional Experience indemnity. This was calculed on the number of years the worker worked in the enterprise and outside the enterprise. For certain categories of workers, this indeminity represented around 50 percent of their basic salaries;

- The Posted Work indeminity. This was paid to workers who shared the work in groups. There were two systems. The 2x8 discontinued posted work system. Under this system, one team worked in the morning and the second work in the afternoon for five days a week. The members of these two teams were paid 10 percent of their basic salaries. The second system was the 3x8 continued posted work. The workers worked twenty four hours a day and seven days a week divided into three groups. One group worked in the morning, the second in the afternoon and the third at night. The workers were paid 25 percent of their basic salaries;

- The Nuissance indeminity. This was calculated on how much the task of a worker involved heat, efforts and danger and was paid monthly. The amount paid at Eriad Alger was between 414 dinars and 78 dinars;

- Work Shift indeminity;

- Obligation indemnity. This was paid for workers who were asked to do the same work outside their normal work place;

- Training and development indeminity. This depended on the length of training the worker was supposed to do. When the training was to last more than a month, some workers received around 20 percent of their basic salaries;

- Basket indemnity. When the worker did not have a canteen in his/her work place, the enterprise paid for his food. At Eriad Alger, the worker was entitled to 35 dinars per day;

- Transportation indemnity. When the worker used the public transportation and paid him/herself for the expenses, he/she was entitled for compensation. The amount of compensation depended on the travelling distance. At Eriad Alger, the worker was paid 300 dinars for a distance between 2 and 10 kilometres, 450 dinars for 11 and 30 kilometres and 500 dinars for more than 5 kilometres. And when the worker used his/her own vehicles, he/she received 1,500 dinars if he/she worked in management position and below this position, he/she received 900 dinars;

- Displacement indemnity. This was for workers who were required to be displaced as part of their jobs. When the displacement was less than a month, the amount was 400 dinars per day for those occupying managerial positions and 300 dinars per day for those below these positions. When the displacement was between one and six months, the amount was 350 dinars per day and 250 dinars for the two categories respectively;

- Annual Holiday indemnity;

- Replacement indemnity. This is given when a worker is placed temporarily in a job not his/her. For example, when a manager of human resources replaces a general manager in his/her absence;

- The Unique Salary indemnity. This was given to a worker whose spouse did not work. It was 100 dinars for a worker without children and 200 dinars with children;

- The Family Allowance indemnity. This was paid to workers with children. The worker was paid 60 dinars for each child;

- The Annual Merit indemnity. This was paid for workers who were regarded by senior managers as workers who deserved some recognition for their good work. The amount was between 1,000 dinars and 5,000 dinars;

- Innovation and Research indemnity. This indemnity varied between 5,000 and 10,000 dinars;

- The *Moudjahidin* (a person who participated in the war for independence 1954-1962) indemnity. The amount of this indemnity varied with the number of years that the worker spent fighting in the war;

- The Loyalty indemnity. This was paid to workers who showed loyalty to the enterprise;

- The Responsibility indemnity. This was paid to workers who had other workers under their responsibility such as managers, foremen and supervisors.

- The School Expenditures indemnity. This was paid to help workers with their expenditure for their children schooling.

Many division managers regarded that the distribution of salaries and bonuses at Eriad Alger were not distributed fairly. One worker working at the production plant of Aissa Idir explained that “People got the bonuses not because they were good in their jobs or they have done anything good to the enterprise but because they are the close friends of the big boss. Most people you see in high positions in this enterprise have been put in these positions '*bil Piston'* (through nepotism)" (Worker, Headquarters, UGTA, 2004)

In fact, in the majority of cases, neither the recruitment nor the promotion at Eriad Alger had been done fair and square as this was repeatedly mentioned by the interviewees at the UGTA. One must understand that the procedures on how to select candidates and their promotion existed in the internal manual of the enterprise but in practice none of these procedures were applied. When a vacancy was advertised in the national press, an applicant had to provide a bundle of certificates (this is a procedures followed in all state and privatised enterprises in the country) to prove his/her suitability to the post advertised. The applicant had also to sit an aptitude test and interview but these were only formalities. The applicant was chosen based on who he/she knew in the enterprise or in the government administration. The more the applicant had ties with someone at the highest level of the enterprise or the government administration, the better the chances he/she had to get the job. To my surprise, the marketing manager and the general secretary at Eriad Alger admitted that the phenomenon of relative and friend ties was widely practised in their enterprise. For the general secretary:

> The *piston* (nepotism) has invaded every department. When one looks to this practice from the top, you have to say that even managers are selected by clientelism and alliances. It is not the professional capacity which is the criteria for the selection of a manager. And the same can be said about the selection at the lower levels of the enterprise.

He added:

> Under the socialist system, we had a control system and it functioned well. For any candidate who had been refused a job, this candidate had the right to complain. We had a committee which looked at this type of complaints. This committee analysed the arguments advanced by the candidate and if he had the right, he would be selected for the job. These committees do not exist anymore. Sometimes people we do not really need are sent to us from the Ministry or from the SGP and we have to accept them and nobody can do anything against it (General Secretary, Head Office, Eriad Alger, 2005).

With this unethical practice of *piston*, Eriad Alger, as well as many enterprises in the country, had lost the opportunities to bring skilled and competent workers who could have brought a significant improvement in the enterprise performance.

Like in selection for the job, there were written procedures for the promotion of workers. The main criteria which the evaluation of workers was based upon were very basic. The worker was evaluated on whether he/she was capable to do the job as instructed, able to work in a team and the quantity and quality of the job produced. In reality, some workers had never been evaluated but got promoted under the discretion of their superiors. The *piston* was, as one manager at the UGTA explained 'Strongly used when promotion involved managerial positions' (Manager, Department of Conflicts and Social Affairs, Headquarters, UGTA, 2004). The general secretary of Eriad Alger also explained that:

> The administrative personnel [managers and their secretaries at the head office] are well paid because of their promotion which

> is done regularly almost every year. These promotions are not based on the professional aptitudes of the personnel or the improvement of their competences. The promotion is done based on who you know not on whether he has performed better. That is why the administrative personnel are the highest paid in the enterprise (General Secretary, Head Office, Eriad Alger, 2005).

Piston was also used when the programmes for training and development were concerned especially when training would lead to promotion and also when the training would take place in foreign countries. In 2000, some 450 employees, particularly at management level, benefited from training at Eriad Alger. The training concerned the acquisition of skills of quality control part of the project to implement the Quality Management System 9001, 2000 in the production plant of Aissa Idir. Taking into consideration the technical and management skills which Eriad Alger desperately needed in a competitive market, the efforts made on training and development could be considered negligible.

7.4.3. Saidal

7.4.3.1. Its Top Management Perception of the Market

Though Saidal was also confronted with government control and unfair competition from imported medicines, thanks to its PGM, Saidal took since 1995 every opportunity to confront the pressure and survive. However, like the SNVI and Eriad Alger and the rest of the state-owned enterprises in the country, the sudden liberalisation of trade in 1991 created an explosion of imports for pharmaceutical products. Unable to compete with this import, Saidal was listed for closure in 1994. After a period of internal struggle, the PGM of Saidal was removed and replaced in 1995 by a man who had become a known figure in the Algerian business sphere, Dr. Ali Aoun. This man had shown that when you play your cards right, both privatisation and the transition could be advantageous to the growth and development of the state-owned enterprise. For the manager of the Department of Conflicts and Social Affairs at the UGTA "Ali Aoun is a model which should inspire every Algerian manager. He is successful because he is a nationalist and a man who likes his country' (Department Manager, Department of Conflicts and Social Affairs, Headquarters, UGTA, 2004).

Ali Aoun initiated a new era in the history of Saidal. From the beginning, he believed that the decline in the performance of Saidal was related more to the lack of vision of his predecessors on how to take advantage of the existing capabilities and use them in an efficient way. According to one manager:

> Our PGM knew that our company did not lack competent personnel or production facilities. It needed to use these resources wisely. We diagnosed the strengths and weaknesses of our enterprise and we found that the urgent need was to motivate people and to use our capacities to a maximum to prevent the enterprise from closure. When our PGM took power, the workers of Saidal were not paid for six months. We made some changes in the way things were done here [at Saidal]. Our objective at that time was to pay these workers and increase production. From working only 7 hours a day, we added two shifts, to make our production plants working around the clock (Manager, Head Office, Saidal, 2004).

Without spending one single dinar on equipments and machineries and without any financial help from the government, the short term strategy of

Saidal yielded positive results. It yielded results at a time when most state-owned enterprises found it hard to survive and at a time when the market for pharmaceuticals was saturated as a result of the explosion of imported medicines. During the year 1995, the import for pharmaceuticals was estimated to reach some US$ 555 million (*Algerie*, 21 December, 1999) the highest since 1991. Saidal recorded a net profit of 90 million dinars and paid its 120 million Dinars overdraft. Since that year, Saidal had never looked back. It had gone from strength to strength. It had recorded remarkable production outputs and profits in the coming years. To give an example, between 1996 and 1997 alone, its production rose by 23 percent and its profit rose from 230 million dinars to 400 million dinars (the equivalent of some US$ 5 million).

With these remarkable production and financial achievements, senior managers of Saidal grew confident in their abilities to make Saidal the number one enterprise for pharmaceuticals production in the country. Based on this long-term vision, The PGM and his management team elaborated in 1997 Saidal's first long-term development plan (1998-2005) for investments to diversity in related products and introduce quality concepts and techniques in their management, products and services. The investments were worth 1.4 billion dinars (or approximately US$ 19.6 million). The ambitious investments came at the time when the government was putting tight control over its expenditures as a result of the Programme for Structural Adjustment signed with the IMF. But for senior managers of Saidal the problem was already resolved. The cash needed for the investments was going to be raised by issuing twenty persent of the enterprise capital for public ownership. The development plan had been executed as scheduled.

Important in this first development plan was the emphasis of Saidal to increase its partnership with multinational pharmaceutical firms. Ali Aoun strongly believed that the only way to survive in a competitive market was not to compete with your enemy but to be partner with them, and this what he did. Since 1996, the number of partnership between Saidal and foreign firms had been in steady increase and thanks to this partnership Saidal had become the number one domestic producer for pharmaceuticals and had been able to open distribution networks in many developing countries and even in some developed ones.

7.4.3.2. Restructuring of its Internal Operations

A. Its Product Market. Because Ali Aoun had a clear vision of how Saidal would be in ten to twenty years time, he and his management team were active looking for every opportunity in the market. The marketing manageress explained that "Through our *Cellule Veille* and our embassies in foreign countries, when an opportunity arises we jump for it" (Marketing Manageress, Marketing Department, Head Office, Saidal, 2004). The first step that Ali Aoun made when he was nominated the PGM of Saidal in 1995 was to carry out a diagnosis of the internal operations of the enterprise. By diagnosing the strengths and weaknesses of the enterprise, the PGM realised that the enterprise was not producing what the market really needed.

Consequently, the enterprise followed what a division manager called ‘A strategy of *nettoyage*’ (Division Manager, Biotic Division, Saidal, 2004). Products which were not demanded a lot by the market were taken from the enterprise production lines. During the early years of transition, the consumption of anti-Biotics to treat stress increased among the population as a result of the rising terrorism, unemployment and poverty. Saidal took this opportunity and specialised in producing anti-Biotics. With this strategy of specialisation in anti-Biotics, this meant a large cut in the number of Saidal’s suppliers for raw material. More important, rather than buying the raw materials entering in the production of anti-Biotics from international markets, top management decided to produce them, with the help of an Italian company *All Chim Tech,* in the enterprise own facilities in its anti-Biotical division at Médéa. In the words of the marketing manageress:

> We did not want to depend on international markets for this raw material. It cost a lot to buy them from these markets. You must understand that one of the reasons for the decline of the enterprise in the early 1990s was because most of its production lines stopped to operate because there was no foreign currency to buy the raw materials. We did not want the same to happen to us. If there is any devaluation in the Dinar or an increase in the price of this raw material in the international markets, this will not hit us hard (Marketing Manageress, Marketing Department, Head Office, Saidal, 2004).

In fact, what had happened with Saidal’s strategy of vertical integration was the ability of Saidal to earn foreign currency by exporting the raw materials to many countries. Between 2002 and 2003, the sale revenues from export of raw material went from 17 million dinars to 75 millions dinars. About 44 million dinars out of the 75 million dinars came from the Italian market and the rest from Sudan, Yemen, Senegal and Niger.

Selling cheap and providing the medicines the most demanded by the Algerian customer was one of the major objectives of the long-term strategy of Saidal. According to the marketing manager "Profit is not our main concern. Our main concern is to make our customer happy. To make him find the medicine he wants when he goes at any time to the chemist" (Marketing Manager, Pharmal Division, Saidal, 2004). To achieve this objective, Saidal had to reshape the domestic environment for pharmaceuticals and this by convincing customers to switch from specialities to generics. One manager explained that:

> Specialities are very expensive. The average Algerian cannot afford them. When a GP prescribes these medicines, very often the patient ask him if he can prescribe something cheaper…As you know, most people are poor in our country. They cannot afford expensive medicines (Manager, Pharmal Division, Saidal, 2004)

Another manager added:

> Generics are 40 to 50 per cent cheaper than specialities and the effects are the same. I am sure that you agree with me that in our country we have a culture that says cheap medicines are not effective…We are trying hard to convince both patients and chemists that generics are safer and effective (Manager, Division Biotic, Saidal, 2004).

Motivated by this objective, the top management mobilised through various means such as press conferences and conferences at the hospitals and medical institutes, a campaign to convince both the customers and the government officials that generics were safe and less costly to produce. More important, the argument of the PGM was that changing into generics would reduce the government' bills for medicine imports which was increasing from year to year. On average, about US$ 770 million were spent each year on imports where 80 percent of these imports were specialities. In fact, most of the imported medicines were already produced by local producers. In many occasions, Ali Aoun criticised the government for failing to regulate the pharmaceutical market. For him, imports should be done wisely. It should include the medicines which were mostly needed and which were not produced locally. Patients who suffered from diabetes, cancer and asthma very often could not find these medicines in the hospitals and in the chemists because some of the import agents stop purposely supplying the market with these medicines in order to increase their prices when supplied again. "It is immoral to make profit at the expense of the health of people. The state should do something about it. This is why we are pushing for the generics. We have also decided recently to import the medicines which we do not produce and which are needed by the market. We want to make an end to this regular shortage of supplies of the most important medicines" (Marketing manageress, Marketing Department, Head Office, Saidal, 2004)

Compared to the SNVI and Eriad Alger, Saidal was ahead of them to find business partners. Its growing sales and its financial health and more importantly the importance of the Algerian market for pharmaceuticals which was the third in Africa after Egypt and South Africa (*Les Débats,* 26 April- 2

May, 2006) had attracted many foreign investors since 1997. However, its strategy of partnership took two forms:

- Alliance through *Façonnage*. This alliance allowed foreign investors to produce their own products in the production plants of Saidal using Saidal's equipments and Saidal's personnel. This type of alliance was used with the multinationals like Pfizer and Eli Lilly (USA), Aventis (German/France), Novo Nordisk (Denmark), Dar Addawa and Ram Pharm (Jordan);

- Industrial Alliance: This alliance was a joint venture with multinational laboratories to create, together with Saidal, factories to produce the multinationals products. Joint ventures were concluded with the GPE (*Groupement Pharmaceutique Europeen),* Pfizer (USA), SANOFI Aventis (France), Spimaco (Saudi Arabia), JPM (Jordan), Asdima (Arab League), BEULA (South Africa), PharmaCuba (Cuba) and Dar-Addawa (Jordan). Around US$ 140 million were spent by Saidal in these alliances with foreign firms. In addition to foreign firms, Saidal had also entered into alliances with domestic private firms such as LAD Pharma, Solupharm, Adcima-Spimaco-Jpm-Digromed. The participation of Saidal in the capital of the various joint ventures in the year 2003 is given in table 7.9, below.

<u>Table 7.10. The various joint ventures and the percentage of Saidal's Participation in their capital in 2003</u>

Name of Joint Venture	Total number of shares	Number of shares detained by Saidal	Part of Saidal in the capital in %
Adcima	6,000	23	0.38 %
Nover	112,500	5,000	4.44 %
Aldaph	25,000	2,500	10.00 %
Somedial	5,708	1,410	24.70 %
Pfizer Pharms Algerie	5,430	543	10.02 %
PSM	9,120	2,736	30.00 %
APS	42,620	12,786	30.00 %
Joras	20,000	6,000	30.00 %
Taphco	6,560	2,296	35.00 %
Algerie Clearing	65,000	5,000	07.69 %

<u>Soruce: Rapport de Géstion 2003</u>

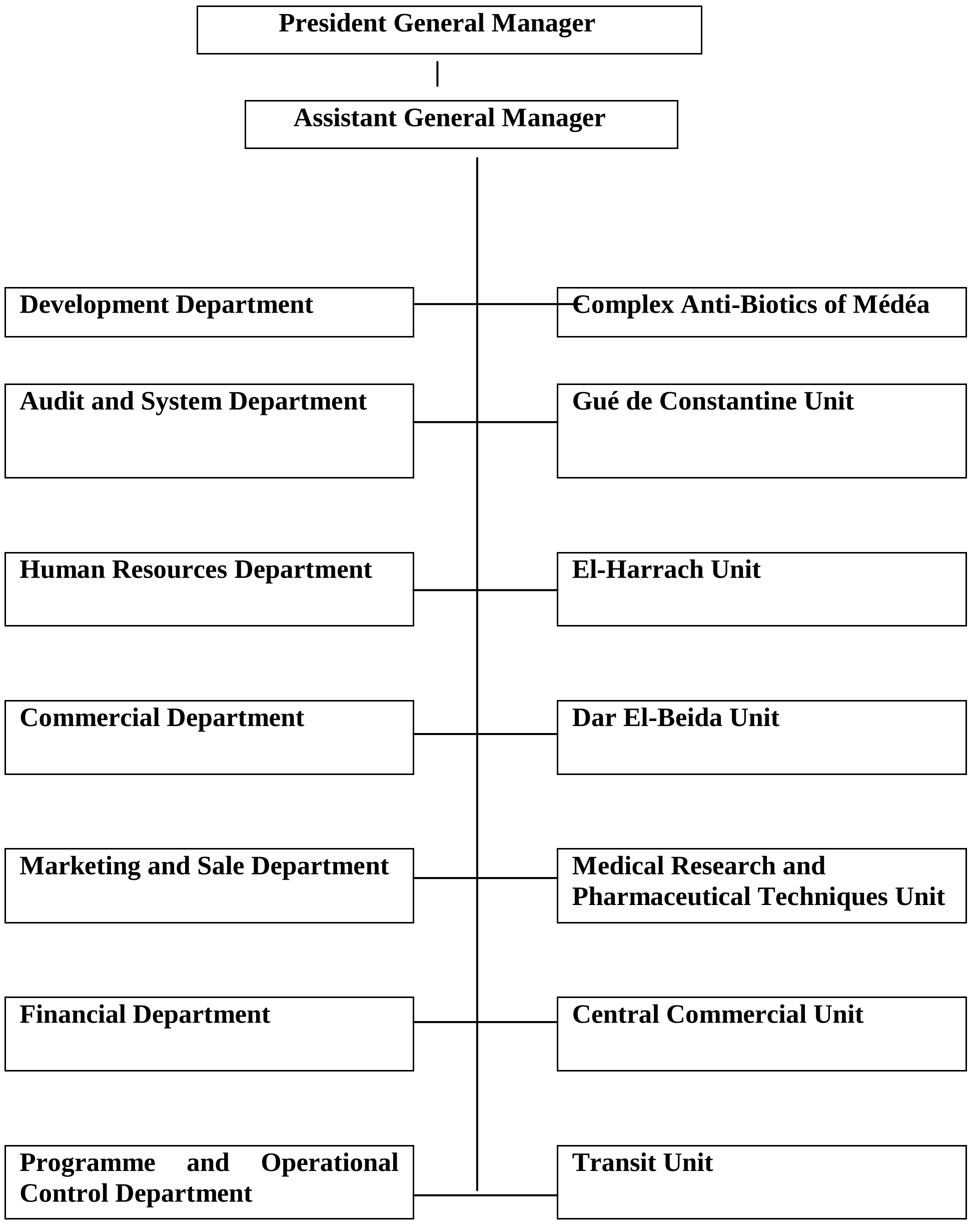
With the strategy of *façonnage* and joint ventures, Saidal increased the number of its product in 1999 to 185 and its share of the domestic market increased from 10 percent in 1995 to 45 percent in 2004. With Algeria signing the association with the European Union in April 2002 and the prospect of Algeria's adhesion to the World Trade Organisation, Saidal set for itself a long-term objective of capturing by the year 2011, 50 percent of the domestic market and increasing its exports to African and Arab countries and some countries in the developed world where 10 percent of its total annual turnovers should come from these exports. Guided by this long-term objective, Saidal increased its spending on personnel training and development, on project to introduce modern technologies and procedures and techniques for quality products and management such as ISO 9001 and 9002 version 1994 and ISO 9001 version 2000.

However, in recent years, Saidal had grown uneasy with its partnership with some multinationals. For its PGM 'We want a partnership where the benefit is mutual' (*El Moudjahid*, 4 February, 2004). When Saidal engaged in the early 1990s in its joint venture with the Danish firm NovoNordisk and the French firm Pierre Fabre to produce Insulin, Saidal hoped a transfer of technology and know-how and significantly the constant availability of insulin in the Algerian market. However, these two multinationals had preferred importing the products they produced in their countries of origin to the Algerian market and had kept for 15 years providing excuses to the Ministry of Health for why they could not invest in production. In 2002, Saidal broke the partnership and went solo, and without any financial help from the state, it produced Insulin in its production plants located in the Eastern region of the country, *Constantine.* Recently, the PGM of Saidal had also been active in convincing the state authorities and domestic private firms that the only way to face the competition from the multinationals in the domestic market was to get bigger. He wanted to see more partnership between the public enterprise and the domestic private firm.

B. Its Organisational Structure. Like the SNVI and Eriad Alger, Saidal carried out its organisational restructuring in 1998. New departments were created, as shown in figure 7.3, below, as a result of its strategy for the introduction of new products and the expansion of its distribution networks.

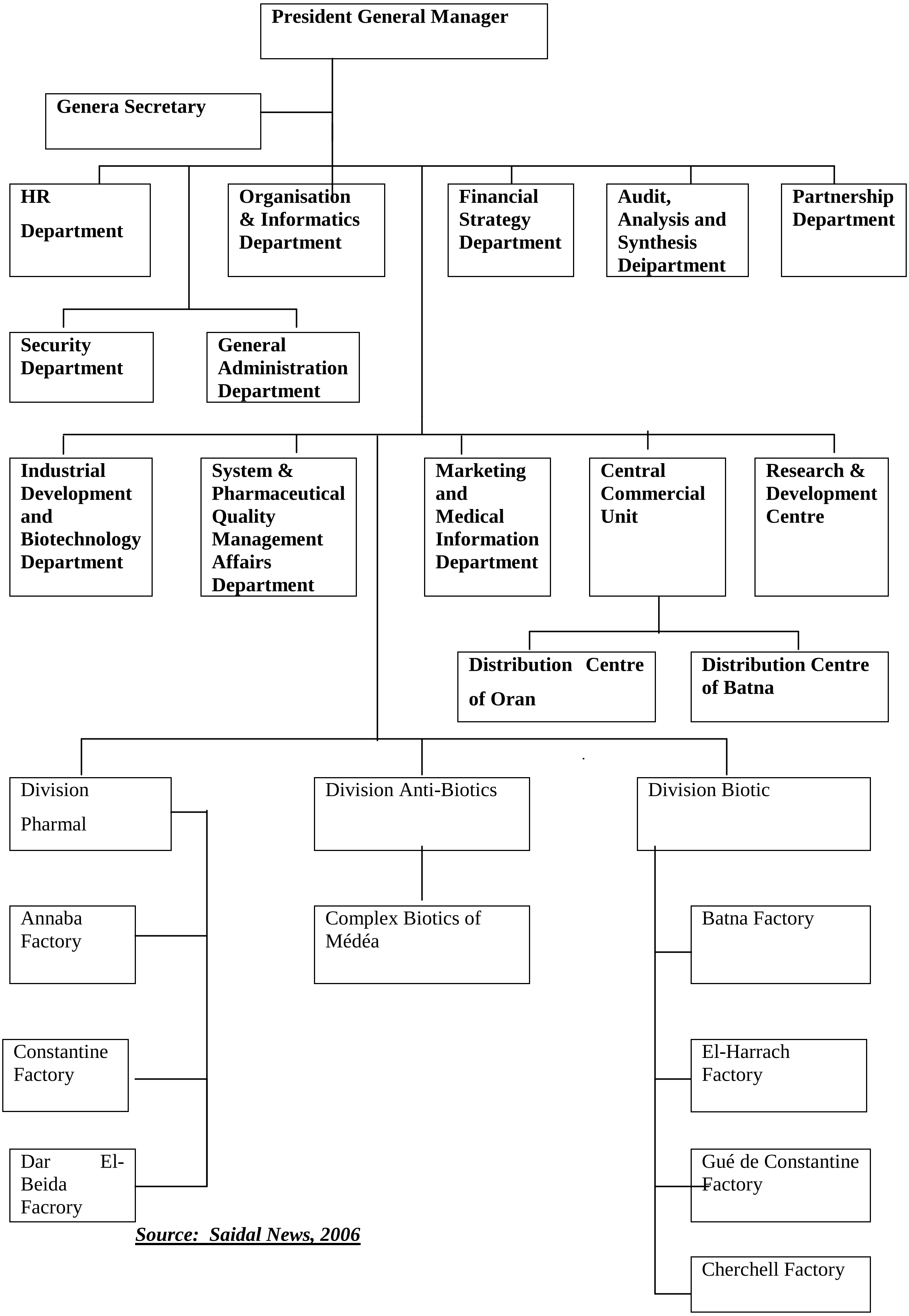
__Figure 7.3. Organisational Structure of Saidal in pre and post Organisational Restructuring of 1998__

Organisational Structure in 1996



__Source: Public Holding Chimie-Pharmacie, 1999__

Organisational Structure in 2006



Source: Saidal News, 2006

But unlike the SNVI and particularly Eriad Alger, the division managers as well as the functional managers had enjoyed autonomy in taking decisions regarding their own area of operations. This had been possible since the introduction in 2002 a system called the ‘Balanced Scorecard’. This system is a measurement system. It is a system which gives top managers as explained by Kaplan and Norton (1992) a fast but comprehensive view of the business. It provides according to these two authors answers to four basic questions:

- How do customers see us?
- What must we excel at?
- Can we continue to improve and create value?
- How do we look to shareholders?

The implementation of the Balanced Scorecard meant for Saidal, the Human Resources manager explained “That each manager has to elaborate his own action plan based on the problems he knows and to try to find solutions to these problems. His action plan should fit within the overall strategy of the enterprise. This type of system of planning is new to us. We have already started to implement it at different managerial levels. Things are already looking good” (HR Manager, HR Department, Head Office, Saidal, 2004). With this system in place, the top management team was able to have a clear view of how the enterprise was doing. The team could pin point which units of operation were doing well and those which were doing badly and this would help managers to take quick corrective actions before the problems would spread to other units of production.

Because quality and diversification in related products had constituted the main objectives of the long-term strategy of Saidal, the managers of the marketing and research and development departments were given ample autonomy to take decision regarding the operations in their departments and they were important members in the *Conseil Scientifique* (Scientific Board), which was composed of twenty members mostly medical consultants, and the *Comite Strategique* (Strategic Committee) which was responsible for the elaboration of medium and long-terms strategies of the Saidal. However, to understand the demands of Saidal's market, a unit called *Cellule de Veille* (Watch unit) was installed in the department of marketing. Its mission as explained by the Marketing manageress was "To diagnose the strengths and weaknesses of our competitors…To understand what is going on in the domestic market. The diagnosis will allow us to decide in which segments of the market we have to be aggressive and those in which we have to be defensive" (Marketing Manageress, Head Office, Saidal, 2004). Through its close communication with other staff in the department of marketing particularly the staff in the Medical Information and Promotion units, the *Cellule* was able to promote the image of Saidal in the pharmaceutical market inside and outside the country. The promotion was carried out through different means. Through its two published magazines *Saidal News* and *Saidal Santé,* through posters and prospectuses and through scientific exhibitions. In 2003 alone, more than 53 exhibitions were carried out in the country by the marketing staff and because the top management team of Saidal was determined to turn Saidal the leading producer of generics in the country, a large campaign was mobilised by this staff since 2002 to explain to the wholesalers, GPs, chemists and dentists the benefits they could draw from generics in terms of their cheap price and significantly in terms of their comparable effects with any parallel specialities.

With the purpose of making the generics the main products of Saidal, its old research and development department which was created in the early 1980s under the name of the *Unité de Recherche en Médicaments et Téchniques Pharmaceutiques* (Research Unit in Medicines and Pharmaceuticals Techniques), (URMTP), was transformed in 1999 into the *Centre de Recherche et de Developpement* (Centre for Research and Development), (CRD). Because Saidal was healthy financially, it had no problem to secure credits from its bank the CPA to modernise the CRD. In 2002, some 168 million dinars were spent to purchase new equipments and machineries needed in the centre and in the development of its manpower. In the same year, the centre employed 180 workers or 5 percent of the total work force where 80 percent of its employees were university graduates. About 56 percent graduated from the various disciplines of pharmacology. What is important to mention here is that the tasks of the employees of the CRD were not focused exclusively on applied research in the laboratories. Rather, the mission of the CRD was to develop medicines particularly in generics and also to provide technical assistance to the various production plants. In 2006, the centre was able to bring innovation in three procedures entering in the production of some of Saidal's products and the creation of a new product to treat dehydration. These innovations were possible thanks to the regular communication between the CRD, marketing and the professional people in the domain of pharmaceuticals and medicine within the *Conseil Scientifique* and the *Comité Stratégique*. .

Though there existed regular communication between the CRD and other major departments, the functional managers at Saidal whether at the CRD, at the marketing or at the production departments complained that this communication was still a long way from effective. Functional departments depended on each other for their performance and therefore the information from one department to another should be adequate, sufficient and submitted at the right time. According to the Marketing manageress "People still do not understand the importance of information. Sometimes the information we need from the production and the purchase departments came to us very late and this can temporarily block our programme of action. This is what is going on at the present in our enterprise" (Marketing Manageress, Marketing Department, Head Office, Saidal, 2004). The Production manager added "If your programme of action is set to produce in 15 days and you come to realise that the procurement department let you know at the last moment that the raw material is not going to come only after one month, naturally, your programme is affected. Sometimes we have to change our programmes of production because the raw materials we have received did not have the specifications we wanted. These are serious constraints that we face here" (Production Manager, Biotic Division, Saidal, 2004).

In addition to their complaints with communication, many managers interviewed rejected the formalisation used in the control of subordinates in their enterprise. The control practices of the socialist era were still practised and subordinates were subjected to tight rules and procedures. For example, each worker had to follow to the letter the instructions enumerated in his/her '*Fiche de Poste'.* The *Fiche* defined the worker's tasks and duties and how to produce the tasks. For the production manager "The tasks of the worker are clearly defined and the worker should follow them to the letter otherwise he will be sanctioned" (Production Manager, Pharmal Division, Saidal, 2004). The marketing manageress added "The policy of Saidal is to create quality products. We have to define who does what. Every body should follow what is written in the *Fiche de Post.* He has to follow every instruction given to him because in our business precision in measurement and quantities are very important. We have informed our production workers to do it right the first time to avoid reworking and wastage" (Markeing Manageress, Marketing Department, Head Office, Saidal, 2004). Based on this tight control policy, a worker was evaluated for his/her performance based on how much he/she had achieved what was required from him/her in the *Fiche de Poste.*

Discipline by formal rules and procedures meant that rotation of workers between jobs was impossible. It also meant that any problem a worker might encounter when doing his/her tasks was referred straight to his/her superior. The position of a person in the organisational hierarchy seemed to be very important. Workers were not ready to take any responsibility for fear of getting fired or demoted. The production manager explained that "For any little problem, the worker has to take the problem to his boss. Sometimes the problem even goes to the division manager or even to the PGM. They have [the workers] this idea that managers know best." (Production Manager, Pharmal Division, Saidal, 2004). The tight control had also somehow discouraged some skilled workers to suggest ideas that might have helped improving better the way they carry out their tasks.

C. Its Employment Policies. Unlike the SNVI and Eriad Alger, Saidal had since 1995, enjoyed, as shown in table 7.7, above, an increase in its work force. Some 1,000 were recruited between 1999 and 2004. The recruitment covered people with specialised and management skills. The shortage of skills like marketing, financial and administrative management and even technical skills which entered in the production process was a serious problem not only for Saidal but for all enterprises in the country because they were few in the labour market and this made competition over them very intensive. At Saidal, for example, based on its strategy of diversification in related products meant that the acquisitions of skills in industrial pharmacy was paramount. For the human resources manager:

> The biggest problem that Saidal faces is in the industrial pharmacy. You have to know that the Algerian university does not train and develop in this domain anymore. The university now creates pharmacists but not industrial pharmacists. This means that we are forced to obtain these skills either by recruiting from outside or developing them inside. We prefer to develop them inside because it will cost us a lot if we want to recruit from outside. Also, when you train and develop internally, you are giving your workers the prospect for promotion for more rewarding positions. This will create more commitment to the enterprise and dedication to do better. We want our professional to stay with us. The private sector is,

> between brackets stealing our skilled workers because they pay them almost 6 to 10 times more than us (HR Manager, HR Department, Head Office, Saidal, 2004).

Similar comments were given by the marketing manageress:

> We have a lot of information which comes to us but how to take advantage of this information is a problem. We do not have experts in statistics, experts in market research etc. We have tried to solve this problem by training internally. Recruiting from outside is generally very expensive. Generally, these recruits do not stay with us because they are paid better by the private sector…The problem in the public sector is that we have a lot of good things, a lot of good ideas, the problem is that we cannot pay the competence we want. So, we have opted to create this competence internally (Marketing Manageress, Marketing Department, Head Office, Saidal, 2004).

Between 2001 and 2003, the recruitment of people with management skills increased by 9 percent and for specialised skills by 3 percent. Because Saidal was guided by its policy of retaining the best skilled people, the 600 managers who existed in 1995 were repositioned in tasks which suited them best with their specialised skills. As far as the work contracts were concerned, in 2001, out of a total number of workers of 3,412, around 73 percent or 2,500 had permanent contracts and the rest were temporary contracts. Often the unskilled workers were offered temporary contracts. It is worth mentioning that the steady increase in the number of workers while most public enterprises in the country were downsizing came as a result of the enterprise strategy for growth and development initiated since 1997 through the extension of its production capacities, its research laboratories and its sales force. Avoiding to a maximum worker lay offs, this gave Saidal a good image in the labour market and had created a good management-workers and management-trade union relationship. For the manager of the department of Conflicts and Social Affairs at the UGTA "The UGTA has no problems with Saidal…The enterprise has protected jobs and created new ones. The salaries of the workers have been in steady increase. This what every Algerian enterprise should do" (Manager, Department of Conflicts and Social Affairs, Headquarters, UGTA, 2005). The manager of the human resources of Saidal added on this point:

> We have always paid our workers. We have never missed paying our workers since 1995. Every year, we distribute among our workers bonuses for profit making of the enterprise. It is not much but we never deny them what they deserve. It is true that some of the trade union representatives have still in their heads the ideas and policies of the socialist period which sometimes create some problems in our discussions with them but these problems had never been serious or created any disturbances in our relationship with the trade union. …In fact, sometimes we, including the PGM, have to consult them in matters which sometimes have nothing to do with them. We have always been careful not to spoil our relationship with our social partner [the UGTA] (HR Manager, HR Department, Head Office, Saidal, 2004).

Compared to the SNVI and Eriad Alger, workers at Saidal were better off than their counterparts in these two enterprises. In fact, what was understood from the interviews with many managers at Saidal, Saidal paid higher basic salaries to its workers than any other public enterprise in the country, with the exception of SONATRACH and SONELGAZ. Production and productivity were highly emphasised in the action plans of Saidal and therefore performance of a production worker was evaluated on these two criteria. At the managerial levels, managers were also evaluated based on the objectives assigned to them in their performance contracts. Though the procedures in the recruitment and selection of workers were similar to those followed at the SNVI and Eriad Alger, there was however, no mention by any interviewees at the UGTA that the *piston* was exercised either in the selection, promotion or remuneration of workers at Saidal. One worker of Saidal mentioned that "Here [at the enterprise] things are tough. If you do not do your job right, you are immediately sacked. They do not tolerate mistakes. People are too scared to lose their jobs. We have to work hard to keep our jobs". Even when managers failed to achieve the objectives assigned to them, they were sacked. On this point, when the PGM, Ali Aoun, was asked in a press conference why a number of highly professional workers of Saidal were fired, his answer was simply "They did not do their job as they were supposed to do it" **(***El-Watan,* 15 March, 2005**).**

With its strategy for quality certification launched since 1999, intensive efforts were made in training and development encompassing workers at almost every level of the enterprise. In 2001, out of a total number of workers of 3,400, 1,379 received training and development courses, 80 percent of them were employees who worked in management and professional tasks. The training covered four main areas:

- Management (strategic and operational). This had touched managers and specialised employees;

- Quality assurance;

- Postgraduate courses in industrial pharmacy;

- Specialities in the domain of R&D in pharmaceuticals

Other training and development programmes were also introduced in skills such as financial accounting, stock control and financial management. In 2003, the enterprise introduced procedures for the evaluation of the training and development programmes initiated since 1999 and also the evaluation of the bodies which provided training and development courses inside and outside the enterprise.

Clearly, Saidal, Eriad Alger and the SNVI had followed different approaches to enterprise restructuring. In order to be able to evaluate the effectiveness of these approaches, one had to look at the changes that took place in their financial performance and their efficiency.

7.5. Impact of Restructuring on their Performance

Because Eriad Alger, Saidal and the SNVI were officially required, like the rest of state-owned enterprises eligible for privatisation, to embark in restructuring in 1998, the analysis of the impact of their restructuring behaviour on their financial and efficiency performance covered a five years period extending from 1999 to 2003. One straight forward way to understand their financial performance was to look at the changes that took place in their annual sale turnovers. These changes are displayed in table 7.11 below.

__Table 7.11. Annual sale turovers (in million dinars) of Eriad Alger, Saidal and the SNVI for the period 1999-2003.__

Enterprise / **Year**	**Eriad Alger**	**Saidal**	**SNVI**
1999	18,337	4,667	10,664
2000	15,546	4,202	9,874
2001	13,843	5,264	12,557
2002	8,103	5,820	13,632
2003	____	6,129	14,736

__Source: Data analysis.__

The table clearly shows that though the year 1999 was a good financial year for Eriad Alger, this did not last. Its sales started to decline since 2000. It declined in 2000 by 15 percent and in the following year by 11 percent. In fact, in 2002, its sale turnover was 56 percent lower than its level in 1999. By contrast, the sale turnovers of Saidal – with the exception of the year 2000 where the sale turnovers dopped by 10 percent – had increased in 2002 by 31 percent its level in 1999. The same can be said with the SNVI. The turnovers dropped in 2000 by 8 percent from the previous year and soon picked up and increased on average 8 percent each year between 2001 and 2003.

One has to point out that though the sale turnover is an indicator of the financial performance of an enterprise, it does not, however, show the enterprise solvency. The enterprise solvency can be understood by looking at the enterprise added value, net profit after taxe and fundamentally at its cash flow. The data on these indicators was available from Eriad Alger and Saidal but not from the SNVI and this was the reason why table 7.12 below included only these two enterprises.

Table 7.12. Added values, net profits after taxe and Cash flows (in million dinars) at Eriad Alger and Saidal for the period 1999-2003

Enterprise financial indicators / Year	**Added value**		**Net profits after taxe**		**Cash flows**	
	Eriad Alger	**Saidal**	**Eriad Alger**	**Saidal**	**Eriad Alger**	**Saidal**
1999	4,503	2,472	1,109	722	1,706	1,072
2000		2,301		271	_____	624
2001	1,689	2,815	46	380	_____	796
2002	1,287	2,837	(-)133	264	_____	590
2003	_____	3,339	_____	482	_____	833

Source: Data analysis.

The table clearly shows that 1999 was a very good financial year for both Eriad Alger and Saidal. Their added values (calculated as (the income from the products sold and services provided and the value of the products stocked) less (the costs of raw materials and equipments and services entering in the production process), their net profits and their cash fllows were positive. Some managers at Eriad Alger related this year good financial position of their enterprise not so much to its performance but rather to some government subsidies to pay for workers redundancies. The table clearly shows, however, that in 2002, Eriad Alger incurred heavy losses. And by 2005, the enterprise was unable to buy wheat to produce its main products. By contrast, Saidal, with the exception of the year 2000 where its net profits dropped from the previous year by 38 percent and its cash flow by 58 percent, it was solvent for the whole period 1999-2003 and it is still healthy financially until this time of writing this work.

To have a clear picture of whether the restructuring actions introduced at Eriad Alger, Saidal and the SNVI, had contributed to their efficiency improvement, it was decided to measure their productivity. Two measures were used: Total Productivity (calculated as Total Output divided by Total Expenditures on labour, raw materials, equipments and services entering in the production process) and Partial Productivity (calculated as Total Output divided by the Total Number of Workers). The first measure was used for Eriad Alger and Saidal but not the SNVI because of the lack of data from this enterprise. The second measure was used for all the three enterprises. The results from the two measures are displayed in tables 7.13 and 7.14 below.

Table 7.13. Total productivity (TP) of Eriad Alger and Saidal for the period 1999-2003.

Enterprise T P / Year	**Eriad Alger TP=Kg/Cost in dinar**	**Saidal TP=Unit/Cost in dinar**
1999	0.7	0.3
2000	___	0.3
2001	0.5	0.3
2002	0.7	0.3
2003	___	0.3

Source: Data analysis.

Table 7.14. Productivity per head of employee (PHE) at Eriad Alger, Saidal and the SNVI for the period 1999-2003.

Year		1999	2000	2001	2002	2003
Enterprise	**PHE**					
Saidal	**Quantity of units per year**	110,313,000	97,287,000	112,509,000	121,111,000	12,4371,000
	No. of workers	2,800	3,377	3,412	3,563	3,762
	PHE	39,000	28,000	33,000	33,000	33,000
SNVI	**No. of vehicles per year**	_____	_____	_____	2,464	3,754
	No. of workers	9,209	9,165	8,761	8,119	8,147
	PHE	_____	_____	_____	0.33	0.33
Eriad Alger	**Quantity of Kg per year**	1,917,848,200	627,061,800	662,410,700	435,933,300	______
	No. of workers	5,195	4,888	4,644	2,788	______
	PHE	369,172	128,285	142,638	156,361	______

Source: Data analysis.

Table 7.13 indicates that efficiency had been stable at Saidal but slightly varied at Eriad Alger. For every dinar spent, 0.3 units were produced each year by the production plants of Saidal. In the case of Eriad Alger, for each dinar spent in the production process, between 0.5 and 0.7 kilogrammes were produced. The same can be said with efficiency in terms of productivity per head of employee. At Saidal, each employee produced round 33,000 units each year. At Eriad Alger, productivity was high in 1999. Each employee produced on average around 370,000 kg of products. But in the following year, it dropped by 35 percent. And very surprising, it improved in the following two years despite the poor financial performance of the enterprise during these years. At the SNVI, despite its good financial performance, its productivity was poor even when compared with the socialist period. In 1976, around 4,037 vehicles were produced in a year by a total number of workers of 5,443 or one vehicle per worker. This trend stayed the same all along the seventies and the early 1980s. In 1986, for example, the enterprise produced around 7,350 vehicles by a total number of workers of 10,080 or one vehicle per worker. But since the late 1980s and the whole period of the 1990s and the early 2000s, efficiency became very poor because of the hard budget constraints and the stagnation of the market. In 2002, for example, the average productivity was one vehicle per three workers but as the economic activity in the country started to grow slowly, productivity started to show some signs of improvement. In 2004, the number of vehicles produced increased from 2,464 in 2002 to 4,000 with a total number of workers of 8,200 or one vehicle per two workers. The enterprise was still unable to reach the efficiency level of the 1970s. Many managers interviewed recognised that productivity at the SNVI was still low and it should be improved if the enterprise wanted to survive the competition from imports.

7.6. Conclusion

It is quite clear that Eriad Alger, Saidal and the SNVI had approached restructuring with different strategies which consequently made an impact on their financial and efficiency performance. Saidal was more successful than the SNVI and Eriad Alger in terms of its financial position and market shares in the domestic market. This was possible through its diversification in its products and innovation. The SNVI was incremental in its restructuring and only few modifications were introduced in its products. In fact, it was able to survive competition because of the government explicit and implicit subsidies. As for Eriad Alger, despite its good performance recorded in 1999, this did not last. Eriad Alger was constrained not only by the hard budget constraints but significantly by the government strong interference in its daily operations and particularly the government determination to sell the profitable activites and leave Eriad Alger in activities where both the prices of their products and the suppliers of their raw materials were government controlled. At this point, one is intrigued to understand the underlying factors in the environment that determined the restructuring behaviour of the three enterprises. The next chapter will try to shed some light on these factors.

Chapter 8

Determinants of Enterprise Restructuring at Eriad Alger, Saidal and the SNVI

8.1. Introduction

Firms are affected by and can affect the environment in which they operate. Effective management is the one that has the capacity to understand, analyse and manage the various factors in the environment be it political, economic or socio-cultural. This chapter attempted to shed some lights on factors that had affected, whether positively or negatively, enterprise restructuring at Eriad Alger, Saidal and the SNVI. Six factors were discerned in this study. These were:

8.2. The Trend in the Market

In any enterprise, random factors play a key role in its restructuring behaviour such as the level of its debts at the beginning of restructuring, the location of the enterprise and the trend in the industry in which the enterprise operates. The findings in this study clearly indicate that the trend in the industry was one of the most significant incentives that encouraged or slowed down enterprise restructuring. During the early years of the transition, like the rest of most manufacturing industries in the country, Eriad Alger, Saidal and the SNVI suffered a sharp decline in their outputs. For example, in 1995, the chemical and pharmaceuticals industry declined by 18 percent, the food industry by 12 percent and the mechanical industry by 29 percent. With the birth rate of the population growing at a rate of 3.5 percent per year and a steady deterioration of the health of the majority of the population, the pharmaceuticals industry started to grow fast. In 1997, the outputs of this industry increased by 9.2 percent whereas the outputs of the food and mechanical industries dropped by 3 percent and 70 percent respectively (CNES, 1997). The report of the CNES (2003: 59) estimated that between 1990 and 1999, the Algerian market for pharmaceutical increased by 51.7 percent or an average increase of 4.7 per year, a growth which was faster than most manufacturing industries in the country including the food and mechanical industries. This study reveals, however, that though the trend in the industry in which an enterprise operates can be a determinant factor in enterprise restructuring this cannot work on its own without other complementary but essential institutional mechanisms.

8.3. Management Autonomy, Partnership with Foreign Firms and Government Intervention Matter in Enterprise Restructuring

There was a strong belief amongst all the managers interviewed in this research that autonomy in decision makings and partnership with foreign firms were more important than selling wholly or majority of their enterprises to private investors. They did not see privatisation as the answer to any production or productivity problems faced by any enterprise in the country. For them, the transformation of their enterprises into joint stock companies was an incentive strong enough to allow them to show their managerial skills and to bring the changes needed in their enterprises. The PGM of Saidal, for example, was nominated in 1999 as one of the best PGM in the country and in 2004 his enterprise was nominated as the most successful domestic manufacturing enterprise in the country in terms of profits, quality products and selling at competitive prices *(Saidal News*, 2004*).*

The managers also emphasised that the only way for top management autonomy to work well was to keep the government away from the day-to-day operations of their enterprises and particularly from their strategic decisions. Though Saidal at the time of writing this work had privatised 35 percent of its capital, its PGM expressed clearly in many national press conferences that he regretted havivg sold, in 1998, 20 percent of Saidal's capital and if it was up to him, he would prefer to see the government stay 100 percent ownership of Saidal but under condition that it would not interfere in the internal affairs of the enterprise. The case of Saidal and the SNVI reveals that corporatisation of the state-owned enterprise under state ownership can benefit top managers in two different ways. Managers can show their managerial skills to improve the performance of their enterprises and they can secure their survival and the survival of their enterprises by using their political skills.

The case of Saidal shows that the only way to maximise the autonomy of the PGM is to minimise the government interference in the internal affairs of the enterprise. This will happen only when the enterprise is profitable and solvent and this will make the enterprise in less need for financial support from the government as clearly explained by one manager when he said proudly that:

> Saidal is successful not because of the support of the treasury. It was able to survive even during its hardest times and this survival was possible without asking from the state one single dinar. In fact, the good performance of the Saidal has been a source for state revenues. Every year, Saidal had since 1995 paid between 400 and 500 million dinars on profits taxes (Manager, Head Office, Saidal, 2004).

The financial autonomy of Saidal increased the power of its PGM to take strategic decisions and this had often led to conflicts with the Ministry of Health. For example, when the PGM decided to produce the BirdFlu and Insulin without any foreign partner, the Ministry refused to give any explicit or implicit back up to his decisions. In fact, the Ministry refused to make purchase orders of Insulin for the state hospitals and preferred to import the product from overseas despite the price was much higher than that offered by Saidal.

The PGM of Saidal grew confident in facing the challenges created by the Ministry of Health not only as a result of the enterprise financial autonomy but also because he had the full back up of the trade union. He was aware, since he was nominated as the PGM of Saidal in 1995, that in order to be able to fulfil his vision to rescue the enterprise from liquiation and turning it a number one domestic producer for pharmaceuticals, he had to create the right social conditions in the enterprise. He was able to convince the representatives of the UGTA and the members of the *Comité de Participation*, who were against any form of privatisation, that the partnership of Saidal with foreign investors would never lead to workers lay offs but rather it would protect jobs and create new ones. By allowing the foreign investors to produce in Saidal's own production plants and with Saidal's personnel, Saidal had achieved two important objectives. First, it was able to upgrade its existing products and produce new products with quality recognised by international standards and this allowed Saidal to increase its shares in the domestic market and to increase its exports. Two, it was able to absorb any unused capacities available in the enterprise and this had allowed Saidal to avoid the closure of unproductive plants and therefore avoided massive lay offs. Three, being a profitable enterprise, at a time when most state enterprises in the country were recording losses, this made the salaries of Saidal workers higher than their counterparts in most state enterprise and this had created a good management-trade union relationship and had made Saidal very attractive to talented workers. In fact, the profitability of Saidal and its good reputation in the country had, as this was clearly shown by all the interviewees, increased the commitment of its managers and workers and made them proud of their enterprise, a commitment and a pride necessary for any enterprise seeking to improve its production and productivity.

At the SNVI and Eriad Alger, however, the relationship between management and the trade union was poor. At the SNVI, the relationship was poor since 1970s and became worse in the 1990s. The massive lay offs during the 1990s made the worker representatives suspicious of any proposed restructuring plan made by the the management and often the suspicion had led to worker strikes. The human resources manager clearly explained this point when he said that:

> The SNVI cannot take any action unless managers have to consult our workers especially when the action has to do with job cuts. The whole enterprise will stop if we do things behind their backs. To give you an example, Hundai is interested to work with us but they are not ready to accept to work with 8,000 workers, they want only 1,000. We are now also talking with Renault Trucks and their problems is also the surplus of workers in the enterprise' (HR Manager, HR Department, Head Office, SNVI, 2005).

A trade union representative at the SNVI also added:

> Workers have learned a hard lesson from the restructuring of the 1990s. As representatives of the workers, the UGTA is for restructuring but not for that which cuts jobs but rather which protects jobs and create new ones. The people with authority in the enterprise [the top management team] are not allowed to put any restructuring plan unless the plan is thoroughly discussed with the workers representatives of the UGTA and the *Comité de Participation.* Anything done without us is illegal. If this happens, we will shut down all production operations and we can also take the matter to the court. (Representative of the UGTA at the SNVI, UGTA's Headquarters, 2005).

The strong position of the trade union in the SNVI was one of the reasons which made many foreign firms seeking partnership with the SNVI reluctant. In fact, it took a lot of convincing from the part of the PGM of the SNVI and the CPE before the workers representatives accepted the fact that the company BTK would be a majority owner in the division of Tiaret. They accepted this fact only when BTK promised to protect the existing 900 jobs, create new jobs and to invest in physical and human capital. The same can be said with Eriad Alger. Worker representatives at Eriad Alger were strongly opposed to any privatisation or partnership which would lead to job slashing. When the production plant Aissa Idir of Mezghana division, for example, was sold to an Algerian company *laBelle*, the transaction was carried out in a complete secrecy without the knowledge of worker representatives. The workers had rejected the sale and carried out acts of sabotage in the privatised plant by refusing to work for six months and by making threats to any worker willing to work or cooperating with the instructions of the new owner.

In addition, foreign firms who were interested to invest in the SNVI and Eriad Alger were also reluctant to do so because of the strong intervention of the government in their internal affairs. The SNVI was suffering from heavy debts for a long time and this made it constantly subject to ask for financial helps from the government as this was clearly explained by its technical manager when he said that:

> Yes, definitely. The state helps us financially. It follows us and when we are in any financial risk, it comes to our rescue. You see, we have diversified production lines and this is the choice of the state. The state wants to protect this industry because it sees in it as an industry which can revitalise other industries to keep some regional economic equilibrium. And if we fall short of achieving the objectives of the state, the state will come to the rescue (Technical Manager, Technical Department, Head Office, SNVI, 2005)

My understanding from the interviews with many managers is that when it comes to strategic decisions, the PGM of the SNVI had the hand tied. When decisions concerned big investment projects like for example which foreign firm should have partnership with the SNVI, the human resource manager explained that “We cannot bring a partner from a country with whom our government has bad relations, even if this firm is the best. Politics plays a major part in this type of decisions. It is not possible to do things behind the government back” (HR Manager, HR Department, Head Office, SNVI, 2005). On this point, it is worth mentioning that recently the government has explicitly shown its willingness to financially support the state enterprises which were considered of high importance in its economic development policies. This decision came after the programme of the public sector restructuring which the government launched in 2008. Accordingly, the public sector was divided into three categories. The first category was the *Sociétés de Partenariat et de Developpement* (Partnership and Development Companies), (SPP), which replaced the SGPs but inherited the same mission as the SGPs. The second category was composed of thirteen *Sociétés Economiques de Developpement* (Economic Development Companies), (SED). Each SED is a mega-company composed of a number of medium and small public enterprises in similar and related activities. The SNVI was converted into a mega-company including in its portfolio all public enterprises operating in mechanical engineering activities and those with close link to these activities. Some observers believed that the SNVI would perhaps take back the entities which were spinned off from SONACOME in the organisational reforms of 1982. The same can be said with Saidal. With the new government restructuring reforms of the public sector, Saidal included in its portfolio all the state enterprises operating in pharmaceuticals. The third category was the *Sociétés de Promotion Industrielle* (Promotional

Industrial Companies), (SPI), which were public enterprises newly created such as shipbuilding and Informatics. The SED and the SPI were considered the main economic actors which would boost the development of the manufacturing sector in the country *(El Watan*, 22 November, 2007*;* 16 March and 6 June 2008*)* and as a result the government promised to provide implicit and explicit support to these enterprises. Under the instructions of the government, the Bank of Algeria introduced a programme for financial restructuring of 146 public enterprises by subsidising them with fresh cash and writing off and extending the repayment of their debts to help them to restructure and be competitive. Whether the financial assistance provided by the government is going to help these state enterprises to introduce effective restructuring and be profitable as the government has expected, only time will tell.

One should not forget that managers of the state-owned enterprises had welcomed these reforms of the public sector. These reforms would bring more rescue opportunities to their enterprises but also would secure their survival. Being a top manager in a state enterprise, especially in an enterprise of strategic importance in the national economy, this position will often allow the manager to influence the policies of the government. When the manager knows how to play his/her cards right, this will allow him/her to take up an important political position in the government administrations as was the case for example with Ahmed Ghozali who was the PGM of SONATRACH and later he became the head of the government.

In addition, a top managerial position in a state enterprise provides job security and social prestige to the incumbent manager. Though the salary for managerial positions in the private sector is often higher than in the state sector, the top managers of Eriad Alger, Saidal and the SNVI had no intention to see themselves managers in private firms. The reason can perhaps be explained by the fact that under private ownership, their management behaviour will be strongly monitored and this will be a decisive factor for their dismissal from their jobs if the performance of their enterprises is not satisfactory. Also, in a country where the manufacturing sector is still predominantly government owned, and the state enterprises are still the largest in the country, being a PGM of a state enterprise is a prestigious status in society. Until 2005, the state enterprises covered some 80 percent of the manufacturing sector in the country. In terms of capacities and worker sizes, they were larger than the private firms. In terms of worker size, for example, the largest private firm did not employ more than 700 workers. Psychologically, the PGMs of the state enterprises especially those which operated at national levels saw themselves as the *Elites* and they had no intention to see their E*litism* disturbed by any means especially the prospect for future privatisation. There were a lot of cases published in the national press where the PGMs of some public enterprises mobilised their managers at lower levels as well as their workers to back up the UGTA's denunciation of the government policy to privatise the state enterprise. While writing this work, the government had in fact announced to make an end to privatisation of the state-owned enterprise. It had also announced to carry out an investigation for all the privatisations which had been carried out since 1994 to see whether they had been done within the law.

8.4. Corruption as an Obstacle to Restructuring and Fair Competition

Without any exception, all the interviewees in this study had emphasised that the macroeconomic environment in Algeria had improved especially since the year 2000. And when the managers of Eriad Alger, Saidal and the SNVI were asked whether their enterprises faced any problems with the provision of the utilities services such as water, electricity, telecommunications and road transportation, they all confirmed that these services had improved tremendously when compared with their status during the 1990s. On this point, the manager of the production plant Aissa Idir explained that "During the political instability of the country, nothing worked. The mills stopped working for weeks because there was no water to wash the wheat. Water was in short supply even for our own use. We had to install our own water tanks to store water. Now, every thing is fine" (Production Manager, Aissa Idir plant, Mezghana division, Eriad Alger, 2005). The human resources manager of the SNVI also added that "The civil war had destroyed many of the development achievements of the 1970s. The terrorists had attacked people, buildings, water pipes, transmission installations, roads. During this time, our enterprise suffered from electricity interruption and water shortage. But we managed" (HR Manager, HR Department, Head Office, SNVI, 2005).

Though the political and economic situations had improved in recent years, all the managers of the three enterprises emphasised that the environment in which they competed was still not properly equipped with mechanisms and institutions to protect competitors. Unfair competition was mentioned as the most damaging to their enterprises performance. Their competitors especially those competing by imports exercised what they described as '*Concurrence déloyale'* (or illegal competition) by bribing officials in the different government institutions. Because of this unfair competition, the growth of most state enterprises had been slow creating a slow national economic growth. According to the World Bank (World Bank, 2000**),** when corruption is widely spread in a country, it can reduce the growth of a country from 0.5 to 1 percent each year. In a survey carried out on bribery in Algerian enterprises, about 75 percent of senior managers surveyed admitted giving bribery to officials in the various state institutions (*Tribune,* 29, September, 2004*)* and bribery had contributed to some 50 percent of the turnovers of enterprises practicing this illegal act *(Liberté,* 20 March, 2007*)*.

Corruption is a very serious problem in Algeria. It is found in all institutions whether political, economic, legal or social. In the words of one manager at the UGTA "Corruption in Algeria is a national sport" (Department of Conflicts and Social Affairs, Headquarters, UGTA, 2005) and there is a saying spread among many citizens in the country that "If you have missed to make a fortune in the early years of independence, today is the right time to make a fortune". Although Algeria had ratified in April 2004 the Convention of the United Nations to fight corruption, the Transparency International (TI) had recently classified the government institutions in Algeria as the most corrupted in the world. The country was allocated the score of 2.6 in 2003, 2.7 in 2004, 2.8 in 2005, and 3.1 in 2006 *(AACC,* 2007*)*. A score below 3 out of 10 indicates a high level of corruption in government institutions. From these four scores, it was clear that the country was surrounded by a serious social problem if not tackled soon would lead the country to ruin.

Many interviewees in this study particularly at Saidal and at Eriad Alger emphasised that their enterprises could have done much better if they had less administrative obstacles created by some corrupted officials in the government administration. One manager at Saidal explained that "In their speeches, ministers put strong emphasis that the state is doing its best to help the domestic firms to increase national production and reduce imports. In practice, imports are in the increase from year to year. I can give you an example. In the year 2003 alone, the state has spent some US$700 million on import of medicines. Many of these medicines are already produced by our plants. I can also tell you another thing. In the law of import, a company is allowed to import only for a period of two years and then it should invest in production. What happens, these companies import for two years and then they dissolve themselves and then they appear again under different names to import again" (Manager, Pharmal Division, Saidal, 2004).

Another manager added:

> They say [the government officials] they are doing their best to reduce imports and want to increase the production of

> domestic enterprises, but when we sent them our projects of investments, sometimes they answer us after 4 or 6 months which in reality they should give us their response in 72 hours. And sometimes, they never give us an answer. Some people in the state want to block our efforts to destroy the company (Manager, Biotic Division, Saidal, 2004).

The unwillingness of the government administration to support Saidal in some of its projects for development was clearly demonstrated when the PGM of Saidal decided to produce Insulin and BirdFlue in Saidal's production plants at Constantine in the east of Algeria. For the BirdFlue, for example, the Minister of Health did not show any ambition to buy the medicine but rather, as the PGM of Saidal explained in a press conference, "They [the Minister of Health] want to import, so, leave them to import. Some people appear to be interested in import though they have the opportunity to have the medicine produced locally and less expensive…If they do not take it, there will be thousand others who will…I will find a market to export the product or to sell it to the local chemists. There are rich people who can buy it but it will be pity' (*Politique*, 19 March, 2006*).* The reluctance of some government officials to give their full back ups to some projects of development of some state and privatised enterprises in the country was, as understood from the interview with a manager at the UGTA, "An act of sabotage of local production. Some people in the government get really upset when our public enterprises are doing well and they will do their best to destroy the ambitions and the dreams of these enterprises" (Manager, Department of Conflicts and Social Affairs, Headquarters, UGTA, 2005). Some interviewees believed that the attacks on some production plants in the country especially those of large state and privatised enterprises that were doing well were not an act of terrorism as it was often reported in the national press but an act of some people who want to see them destroyed. In fact even the PGM of Saidal, as it was understood from some interviewees, was him personally targeted by these attacks. This clearly explains why both Saidal and also the SNVI and many other large state and privatised enterprises in the country have used armed security recruited from the *Securité Nationale* (National Security) to protect themselves and their enterprises.

More explanations for the underlying forces at play to create obstacles to some large state and privatised enterprises prosperity were given by a former manager of the SGP CABELEQ interviewed at the UGTA's headquarters in 2005. In his words:

> Many officials in the state administration are themselves involved in imports and they do not want the domestic production to prosper because they will lose a lot...Some of them have established their own companies to compete with the public enterprises. I can give you an example. Why Eriad Alger is not doing well. Because one member of the government wants to see Eriad Alger out of the way so his big mills which are located not very far from Algiers will dominate the market of the central region. Ministers always talk about privatising the EPEs to make them efficient. Most enterprises which have been sold have been turned into parking places or closed down…I can also say that when a member of the government chooses a partner for a local company, he definitely chooses a foreign company particularly French because this partner has already *amarlu foumu* (filled his mouth)[which means has given him a big bribe].

With the partnership of Algeria with the European Union, and the prospect of becoming a member in the World Trade Organisation, the Algerian markets had become an open market with strong competition from the multinationals.

This had created some fear amongst many PGMs in both state and private domestic that the the long-term survival of their enterprises was under a serious threat. Consequently, they called the government authorities to allowed state and private domestic enterprises to merge together to create mega domestic companies to face the threat. Both the PGMs of Saidal and the SNVI had put forward projects for partnership with some domestic private firms but the government administration had showed its reluctance to give its consent to these projects. The discontentment with this attitude of the government administration was clear when one manager at the SNVI explained that:

> When the private domestic firm CEVITAL approached us to enter into partnership with us, we were happy. We submitted our project to the state but the state has blocked it. Until now, we do not have a concrete reason for the refusal. It seems that some decision makers in the state administration are happy with us to have a foreign partner than to have a domestic one... By going into partnership with domestic firms, we are not only creating more jobs but we are bringing more revenues to the state. The foreign partner does not pay any taxes and he is allowed to take all his profit outside the country which is very harmful to the growth of the national economy...If we want to grow we need to reinvest the profits we make. The foreign partner is usually not ready to do that…If these decision makers think that the foreign partners will bring the know-how, they have to think again. Nowadays, it is easy to buy the technology. Foreign partners are interested only in making profits not in transferring technology. I do not understand why they brought us the German ZF in our enterprise. He did not bring any technology to the enterprise. All his machines and equipments he uses in his production process are imported from Germany (Manager, Head Office, SNVI, 2005).

In recent years, attacks in the press and by the AACC [this is an Algerian anti-corruption agency] against corruptive behaviour of many officials in the government administration has been growing. Though the government had enacted in April 2006 a law to fight corruption and as a consequence a state agency was created to implement this law, the AACC regarded this law as no more than ink on paper. Neither the court nor the government administration had shown any enthusiasm to seriously tackle the problem of corruption in the country such as:

- The Khalifa scandal. This was the biggest financial scandal ever seen in the country. Until 2007, the matter was still hanging in the court without any final verdict. There was also no verdict on the trials of those criminals who embezzled some 231 billion dinars;

- Implement Clause 7 of the law of anti-corruption which was rejected by the Algerian Parliament. The Clause 7 requires that all individuals selected for high positions in the government institutions should declare the sources of their wealth two months before taking up their positions;

- Fire some custom officers who were known for their lack of integrity and to install the right equipments used for detecting fraud. Many the equipments used in airports and ports were obsolete and the ones which were modern needed repairs. In 2003, for example, out of the 184 scanners, only 40 functioned properly *(Liberté*, 1 August, 2004*)*

;

- Exercise tight control over the business contracts offered to foreign companies. Many contracts were offered not because the companies had good reputations in their markets but because their owners paid high bribes to some influential officials in the government administration.

The AACC feared that corruption would spread more in the government administration and institutions with the new projects launched by the government for the construction of infrastructures. In the words of the chairman of the AACC "The 55 billion dollars allocated to the projects are going to be the new prey for the heads of corruption" (*AACC*, 2007**).**

8.5. The Shortage of Technical Skilled Workers can Slow down Enterprise Restructuring

Though the literature on restructuring in transition countries mentioned that senior managers in the ex-communist countries lacked skills in marketing, financial analysis and competitive management techniques, technically skilled labour force did not seem to be a problem in these countries. Without doubt, the technical skill shortage has not been mentioned in the literature on restructuring as a constraint because the ex-communist countries were advanced in manufacturing and many countries like East Germany, Czechoslovakia were before their adhesion to the communist bloc after the Second World War in the same level of industrial development as the UK and France. Also the circumstances in which the transition took place in the ex-communist countries were totally different from those in Algeria.

In Algeria, the transition to the free market economic system and particularly privatisation took place in the middle of a bloody political instability, a situation which pushed many of the professionally skilled people to flee the country. Many interviewees regarded the political instability of the 1990s as one of the causes of their product decline. A manager at the SNVI explained that "Workers did not turn up to their jobs fear from being ambushed on the roads and killed. We could not secure our inputs supplies and the distribution of our products because our lorry drivers refused to do so because it was not safe. Our production plants stopped functioning for weeks because of this situation. But I thank God now, these black years have gone and I hope for ever" (Manager, Industrial Vehicles Division, SNVI, 2005).

Though these dark years have gone, the labour market remained still in sharp shortage of technical skills and the skills needed in competition. For the human resources manager at the SNVI

> In the past, we had people who had high technical skills. These were trained overseas or by the Algerian university. Now, it is hard to find these people in the labour market, because now the Algerian university does not produce these types of people anymore. Do not forget, we are now in more pressure than before. We need people who know how to diagnose the strengths and weaknesses of our enterprise to be able to design a more realistic strategy of restructuring of the SNVI. We always seek the help of international consultant companies to do it for us. These consultants are very expensive to hire. Now the Minister of Higher Education has now called for the necessity to introduce in our universities the teaching of modules in competitive management. There are also some private schools which are now offering education in management and quality control. I know it will take time to be like in the developed countries but at least our state is making some moves (HR Manager, HR Department, Head Office, SNVI, 2005).

Similar comments were also given by the human resources manager at Eriad Alger when he said that:

> In the Algerian labour market, there is a lot of shortage of technical expertise because this expertise has emigrated overseas…In the past, the education system performed better than nowadays. Today, graduates from universities and technical institutes have less knowledge and skills than those we had in the past... Some of them do not even know how to write a right sentence. The new professionals do not have the same abilities as before and we have to train them for one to two or three years before they become well knowledgeable with their work (HR Manager, HR Department, Corso, Division, Eriad Alger, 2004).

On the same point, the human resources manager of Saidal added:

> It takes us between 2 to 3 years to train and to develop Industrial Pharmacists before they can be fully integrated in the enterprise because the Algerian university does not produce these skills anymore. This is why, we have put the pressure on the state to review the curriculum used in the university to make it more responsive to the need of our industry. We have already taken the step to have close relationship with the university...This is a first step and I am sure this relationship will develop further and will bring the expectations we are looking for in terms of the skills we need...People are expecting too much too soon. It will take time to develop all the skills our enterprise needs especially in the areas of marketing, finance and management (HR Manager, HR Department, Head Office, Saidal, 2004).

The seriousness of the problem for the shortage of technical and management skills in the country was raised and thoroughly analysed in a report produced by the CNES in 2002 (cited in the national newspaper the *Liberté*, July, 2004). According to this report, the terrorism of the 1990s had targeted all professional categories in the country from journalists and artists to medical practitioners, university teachers and graduates and scientists. The report pointed out to the seriousness of the problem by giving an example. Between 1992 and 1996 alone, some 3,000 professionals in the field of information technology alone had fled the country. According to AMEDAF (*Association de Médecins Algeriens de France* (Association of Algerian GPs in France)) out of a total of 10,000 foreign medical practitioners in France, 7,000 were Algerians *(Libérté,* July, 2004*).* Many of the professionals who fled the country went to the industrialised countries and many have even created their own businesses there. In recent years, senior managers of business enterprises in Algeria both in the state and private sectors had called the government to provide the right incentives to induce and bring back this important Algerian human capital to Algeria to benefit from their experiences and skills.

8.6. Managers Complained about the Shortage of Adequate Market Information

Senior managers from state, privatised and private enterprises, including the three enterprises of this study, have been active in recent years to put pressure on the government to reform the state institutions for information analysis and dissemination. The scarcity and inadequacy of information on the market activities and the opportunities for investments in Algeria created obstacles for top managers of Saidal, Eriad Alger and the SNVI to have a clear picture of the whole environment in which they operated to allow them to elaborate an effective action plan for restructuring. The manager of the planning department at Eriad Alger complained that:

> Until now, we do not have information which is needed in our forecasting process. And I do not think this is only our problem but the problem of all Algerian enterprises. They [the government] want us to be part of the free market economic system but we do not have information on this market. The indices of this market still remain perceived from the macroeconomic indicators. What I want to say, the information of the market should include more than these

> indicators. It should include information of psychological aspects, of the consumer behaviour etc…I mean knowing the situation in terms of the purchasing power of consumers, their options, their preferences. This kind of information is still lacking in Algeria (Manager of Planning, Planning Department, Head Office, Eriad Alger, 2004).

The marketing manageress of Saidal added:

> All the information about the market we have to do it ourselves. If we rely on the ONS or the CNS, either the data they provide carries discrepancies or is out-of-date. Doing this sort of things ourselves is time consuming and expensive (Marketing manageress, Department of Marketing, Head Office, Saidal, 2004).

In its report of 2004, the CNES addressed the problem of information shortages and analysed in details the sources of the problem. The report related the problem to the lack of coordination between all the actors in the economic and social activities. There was a lack of coordination between the different departments and agencies in the government administration at central and local levels making the flow of information between them very difficult creating as a consequence distortion in the policies of these departments and agencies. This state of affairs had been, according to the report, a consequence from the implementation of the Programme for Structural Adjustment dictated by the IMF on the Algerian government. The programme created a hierarchical chain in decision makings in the government administration and an overlap of roles and responsibilities between the different decision making bodies.

Also, the government institutions for collecting and analysing the economic and social activities in the country such as the ONS (National Office of

Statistics) and the CNS (National Centre of Statistics) suffered from many problems such as the high turnover of their personnel, especially those with high skills, to search for better opportunities in the domestic private sector or overseas; the difficulties to collect data from private and state commercial and service enterprises and institutions. The report pointed out that there was strong unwillingness especially from the part of the private firms to disclose information about their activities and their performances with the intention to avoid paying the taxes. It also pointed out that private, state and privatised enterprises and institutions still used the old procedures used during the socialist period for evaluating their financial and human capital making the information generated by these procedures of low quality and insufficient to deal with the requirement of the free market economic system. The report proposed that radical reforms should be introduced in the management of the ONS and the CNS and significantly in the management of all government institutions.

8.7. Impact of Cultural Values and the Legacy of Colonialism on Restructuring

The cultural values of a society are the customs, the language and the religious beliefs of that society. They determine the way the citizens of that society look to life and determine how the citizens interact with each other and with people outside their society and their cultural values. In Algeria, the cultural values of the citizens stem predominantly from Arab and Islamic customs and beliefs and also from the legacy of French colonislism in Algeria. Showing high respect to your parents, to other members of your family and to all peoples you interact with stem from Islam and are the foundations in the relationships between individuals. In fact, not looking after your parents, when they reach an old age, is regarded not only unhuman but very sinful. In the work place, older workers are respected by younger workers even if these younger workers are managers. One manager at the SNVI deplored the fact that his enterprise targetted older workers to make them redundants. For him, "It is unhuman to go to a man the age of my father and tell him we do not need your service anymore. The poor man, nobody is going to offer him a job at fifty nine or sixty four years old." (Manager, Commercial Division, SNVI, 2005). At Eriad Alger, there was a sense of pride that the enterprise did not rush in laying off older workers like what many state enterprises did in the 1990s. In all the divisions, except Corso, more than 20 percent of their work force were over 50 years old (*Bilan d'Activité, Exercice 2000, Fonction Ressources Humaines*, 2001). The human resources manager explained that:

> If the production line stops running because there is no orders, we transfer workers to other production lines and bring them back when things get better...Often older workers that their skills become obsolete are given easy tasks like for example placing him a security guard, distributing mail to different departments or making coffee to the staff. What I mean to say, easy jobs, why fire him, it is not right (HR Manager, Beni Mezghana division, Alger, Eriad Alger, 2005)

Many human resources managers at Eriad Alger and managers and workers interviewed at the UGTA's headquarters expressed their deep disappointment with the way the government handled the restructuring of the manufacturing sector in the 1990s. One manager said "They were throwing workers in the streets to solve the problems but what they have created is a total misery". A worker added "Privatisation is a capitalist thing...They [the West] brought us what I see as the heartless capitalism...Profits come before anything else". Another worker explained "In our enterprise, consultants were hired from Europe to tell us what to do...They made things worse". The manager in the department of conflicts and social affairs at the UGTA regarded the main objective behind selling the public sector was "The complete destruction of the public enterprise". Many interviewees showed a clear sign not only of rejecting privatisation but a resentment to foreign investors to own shares in the state enterprise especially investors from the West and particularly France. A manager at Beni Mezghana division explained that:

> Some Algerian journalists are bombarding us with critics. They say we are not privatising quickly...You know that some of these journalists are bought by some French investors. Guess who is trying to buy our enterprise, the former colonial owner of our enterprise. He wants to come back and take over the enterprise. Well, I hope it will never happen while I am still alive (Manager, Beni Mezghana Division, Alger, Eriad Alger, 2004).

The resentment of the former colonial power in Algeria is felt even among the young managers who did not live the colonial time. Many interviewees clearly expressed their suspicions about the whole story of transition and privatisation and regarded what happened in Algeria since 1988 was a tool to put the country in the hand of the former colonial powers. Paradoxically, the French language is until today still used even among those who do not want to see any French investment in the country. The French language is widely used by individuals particularly by those occupying high positions in most manufacturing and service enterprises and institutions. It is used as a mean of communication but this does not mean that these individuals carry French cultural values. The French language is regarded as a mean of technology and science transfer but the Islamic and Arab values are still representing the identity of the Algerian citizen, his/her belonging and his/her way of life. The manager of conflicts and social affairs at the UGTA's headquarters (2005) expressed with proud that "Our religion dictates on us to have democracy...Islam is the religion of collectivity. Every sciency, every way of life is in our Quran".

8.8. Conclusion

Enterprise restructuring at Eriad Alger, Saidal and the SNVI was controlled by random and non-random factors. The growing market for pharmaceuticals was an important incentive that encouraged restructuring at Saidal. There was, also, a clear indication that the majority of managers of the three enterprises opposed privatisation and considered that the corporatisation of their enterprises was a significant incentive enough to encourage them to bring the changes needed in their enteprises to face competition. Though the corporatisation of the state enterprise was a significant incentive in restructuring at Saidal, it was not so at the SNVI and Eriad Alger because of the government intervention in their internal affairs.

The government intervention was not the only constraint facing enterprise restructuring. Corruption, the shortage of technical skilled workers, the shortage of adequate market information and significantly the political instability in the country had affected negatively enterprise restructuring in the three enterprises. This chapter also revealed that the cultural values and the legacy of colonialism played an important determinant of enterprise restructuring. The family, regional and friend ties and the sense of brotherhood between individuals were clearly exhibited in the recruitment and promotion of managers and workers and in avoiding the lay off of older workers. The legacy of colonialism was too clearly exhibited in the strong opposition of managers and workers to privatisation and resentment of foreign investors owing shares in the state enterprise and their suspicion that the whole transition to the free market was a new way to bring back the former colonial powers to Algeria.

Chapter 9

Conclusion

To date, the experience of enterprise restructuring and its determinents was drawn from the ex-communist countries in Europe. The bulk of the research on this topic has, however, compared Central and Eastern countries with Russia and the NIS in terms of the methods used to privatise the state enterprise, the extent of hard budget constraints imposed on state and privatised enterprises, the extent of replacement of managers from the socialist period with market-oriented managers, and the extent of competition in the product market. The conclusion drawn from this literature is that Central and Eastern countries adjusted faster to the free market system than Russia and the NIS and their state and privatised enterprises restructured effectively.

This study explored enterprise restructuring and its determinants in three large state enterprises slated for privatisation operating in different industries in Algeria. These were Saidal, the SNVI and Eriad Alger. They operated in pharmaceuticals industry, heavy vehicles industry and wheat processing and manufacruring industry respectively. Clearly, Saidal was more effective in its restructuring actions than the SNVI and Eriad Alger. The case of Saidal also provides a finding that is not fully consistent with some of the studies reviewed in the literature on enterprise restructuring in the ex-communist countries. It does not support, for example, the suggestions made by Aghion, Blanchard and Burgess (1994) and Roland and Sekkat (2000) that managers would engage in restructuring because they wanted to show their managerial abilities and this with the prospect to remain in their positions once their enterprises were sold to private owners or to have better chances to be hired by private firms. There was no clear evidence that the PGM of Saidal was concerned with his career since he was himself against privatisation and regretted having sold 20 percent shares of his enterprise in 1999. There was, also, no clear evidence that the PGM of Saidal was encouraged to introduce restructuring in his enterprise because he had potential stakes in his enterprise which Aghion, Blanchard and Burgess (1994) suggested would be a potential incentive for managers to engage in restructuring. Perhaps the only evidence drawn from the case of Saidal which clearly agreed with Aghion, Blanchard and Burgess is that related to their suggestion that hard budget constraints could be a significant incentive that would encourage restructuring. The PGM of Saidal had explicitly stated in many national press conferences that his enterprise had never obtained financial help from the government and the investments made in his enterprise were financed by the revenues drawn from the sale of shares and predominantly from retained profits. In this respect, one can confidently say partnership of Saidal with foreign companies played a large part in the growth of Saidal in terms of its product diversification, size expansion, increase in its domestic and foreign market shares, and its profitability. This confirms the findings of Djankov and Pohl (1997) which indicated that Slovakian firms which went into partnership with companies from the West, particularly German and Austrian, restructured effectively and were profitable. The case of Saidal also disagrees with the conclusion made by Claessens and Djankov (1999: 1123) that "Enterprise restructuring in transition economies requires new human capital which can best occur through management changes. Countries with insufficient entry of new managers (either expatriates or newly trained managers) may have difficulties in achieving high corporate growth". In spite of the fact that the PGM of Saidal was groomed within the socialist economic system, his appointment in 1995 as the head of the enterprise had turned the enterprise around from a loss-making enterprise to a profit making enterprise, making Saidal an attraction to private foreign investors. In addition, unlike the prediction made by authors like Ivancevich *et al*., (1992), Avraham (1993), Luthans *et a*l., (1993) Pribova and Savitt (1995), Shipley *et al*., (1995) and Savitt (2001) that managers from the socialist system would find it hard to cope with competition, the case of Saidal clearly indicates the opposite. Its PGM was able to quickly adjust the enterprise to the free market system and was as effective in his management as his counterpart in the private sector. In fact, the findings drawn from the survey on the top management characteristics do not support the propositions made by Hambrick and Mason (1984) that older executives and executives with functional track in production and process engineering would be less likely to engage in risky investment and be competitive and would be more committed to the *status quo* and be more concerned with their career and financial security. If one were to speculate as to why the PGM of Saidal was successful in carrying out effective restructuring, several possible explanations can be given. One explanation may lie in some intrinsic attributes of the PGM. These could be his personality, his leadership style or management ability. Another explanation may be the PGM's ability to have greater negotiating room with the government administration permitting him to have ample discretion in the decision making process and be creative. One or several of these explanations may be appealing but the present study cannot provide any test of these hypotheses.

The study permits, however, to draw the conclusion that when enterprise restructuring is concerned, controllable and uncontrollable factors in the environment played an important role in determining the restructuring behaviour of Saidal, the SNVI and Eriad Alger which can be explained as follows:

1. The Controllable Factors.

1.1. The Corporatisation of the State Enterprise

The corporatisation of the state enterprise seemed to be an institutional instrument that encouraged restructuring by allowing senior managers to show their managerial skills and abilities. But it seemed that senior managers were allowed to do so only when there was little government interference in the internal affairs of their enterprises. Financial autonomy was an effective tool that minimised the government interference in the affairs of Saidal. Though both the SNVI and Eriad Alger were corporatised in 1995 and 1990 respectively, their senior managers had their hands tied to take strategic decisions in their enterprises not only because they were in heavy debts and therefore desperate for government financial rescues but significantly the government looked at them from two different strategic positions in its economic and political agenda. The government regarded the SNVI as the jewel of the Algerian manufacturing industries and its protection from total privatisation was vital. Selling it to private investors meant giving the power to these investors to have influence not only in the most strategic industry in the country but also their influence in the government future economic and eventually political policies. Therefore, the government provided various subsidies to the SNVI to revitalise it and protect it from competition. These subsidies were in the form of debts forgiveness, tightening the entrance of new firms in heavy vehicles manufacturing industry and imposing that the SNVI should be the main supplier of government owned manufacturing and service enterprises. Unlike the SNVI, Eriad Alger operated in an industry which did not generate new industries and this made it less important in the government economic and political strategies and therefore its total privatisation was the government main option. Clearly, the corporatisation of the state enterprise can be an incentive that will encourage senior managers to introduce effective restructuring but only when the enterprise is less dependent on the government financial support and is not listed as strategic enterprise in the government political and economic policies.

1.2. The State of the Institutional Environment

In agreement with Stern and Hicks (1996) and Nellis (2002), the privatisation of the state enteprise and its restructuring in a context of transition should be supported by institutions and mechanisms that function properly. In Algeria, privatisation of the state enterprise and its restructuring were very slow because these institutions and mechanisms lacked the necessary funding and technical expertise. Algeria provides almost a unique experience of privatisation never experienced in the transition countries of Europe. Though it was influenced by the Polish experience in terms of liquidating small enterprises and selling them to their managers and workers because this type of privatisation did not need a lot of funding and technical expertise, when it comes to privatise large state enterprises the government was very careful not to sell the assets of these enterprises to private investors and preferred instead partnership between these enterprises and foreign multinationals. Partnership took the form of joint ventures and sub-contracting. The case of Saidal shows that partnership benefited both partners. The foreign partner benefited from the cheap labour and cheap price of energy and infrastructure, the proximity of Algeria to African and Arab countries, the freedom to dispatch their profits outside the country, and the provision of various tax concessions. Saidal, on the other hand, benefited from technology and management know-how transfer, opportunity to open new markets outside Algeria and avoiding closing down production plants that lost markets by diversifying production lines and consequently avoiding massive worker redundancies.

The study provides support to the report made by the World Bank (2000) that corruption is a serious obstacle not only in slowing down effective enterprise restructuring but also the growth of the national economy. Corruption in Algeria has led to political instabililty, creating confusing laws and poor functioning of the legal institutions to protect the rights of individuals and companies. Foreign investors wishing to invest in Algeria should take into consideration this social phenemenon. Also, policy makers in the Algerian government should understand that the economic and social reforms should not be confined to enacting a bundle of laws and the installation of government institutions to implement these laws. These are important but not sufficient. The main ingredient of the reforms should be the creation of competent individuals to implement these laws and manage these institutions. The competence of these individuals should be measured not only in terms of their technical skills but fundamentally in terms of their ability to be less tempted to corruption and be committed to their missions. This type of individuals will be created only through a radical reform of the education and training systems in Algeria. In support of Nellis (1999), privatisation of the state enterprise in Algeria should be halted until the free market institutions and mechanisms start to function properly.

2. Uncontrollable Factors

2.1. The Trend in the Market

The findings drawn from this study support the conclusion made by Pohl, Anderson, Claessens and Djankov (1997) that the trend in the market would affect the restructuring behaviour of the enterprise. The market in which Saidal operated was growing fast in Algeria providing opportunities for the enterprise to attract foreign investors. In fact, the case of Saidal provides evidence that the trend in the market has more power than anything else in the business environment to attract foreign investments. Despite the political instability of the country and the inedequacy of the free market institutions, multinational firms were willing to take the risk and invest in Saidal. This argument can be further back up with evidence from the SNVI. The SNVI was able to have two partnerships, with ZF and BTK, only when its market started to grow following the massive project for infrastructure building launched by the government since the early 2000. Even at Eriad Alger, some foreign investors were interested since 1999 to go into partnership with Eriad in activities with growing markets such as biscuits, chocolate and yeast. But these partrnerships never materialised because the government insisted that these activities should be totally sold to private investors. Though the location of the enterprise, its level of debts at the beginning of the transition matter in restructuring, the trend of the market in which the enterprise operates matters most.

2.2. The Cultural Values

This study provides a determinant which has hardly been touched by researchers on transition economies which is the influence of the cultural values on enterprise restructuring. By the cultural values, it is meant here not only the effect of religion on the habits and relationship between individuals but equally significant the effect of French colonialism on the way the Algerian citizen thinks about anything coming from France in particular and from the West in general. The brotherhood that is the foundation of Islamic belief is tightly rooted in the relationship between individuals not only in the family but also in the work place. Any investor coming from outside this culture should understand this relationship. The family and friend ties and regional belonging play an important role in the recruitment and promotion in the work place. It is considered, for example, a shameful thing to do if a person refuses to do a favour to a family member or a friend and often the refusal leads to communication and tie break up with this person. It seems that the family, regional and friend ties become reinforced when the country is going through harsh economic problems and the job opportunities in the labour market are scarce. In addition, respect for the elderly is deeply rooted in the relationship between Algerian people. It was clear from the interviews that there was a sense of guilt among many senior managers at the SNVI to have proceeded in the 1990s in the laying off of old workers. In fact, it is common to see in many Algerian enterprises whether in manufacturing or service sectors, old men, who are not apt to carry out tiring and noisy tasks, are given jobs as security workers at the enterprise gate or making coffee or distributing mails to the enterprise staff.

What is also significant in Algerian culture is that though the technology and know-how from the West are welcomed, the findings from the study clearly show the presence of resentment of managers and workers to see Western investors to own shares or assets in their enterprises. The irony is that it is a common thing to see in Algeria that a person with a position of responsibility in manufacturing or service sectors to use French language as a mean of communication because it is still regarded as a mean of technology and science transfer from the developed economies. But any policies or recommendations emanating from Western institutions that affect, in one way or another, Algeria's economic and political institutions are still regarded with suspicion.

However, the findings drawn from this study have their limitation. They were drawn from the experience of only three enterprises. Though the findings have ecological validity, they could not provide internal validity and replicability. The non-random sampling used in the selection of participants reduced the external validity of the findings and therefore the experience of enterprise restructuring and its determinants of Eriad Alger, Saidal and the SNVI should not be regarded as representative of other enterprises operating in their industries. To test the robustness of the findings drawn from these three enterprises, these enterprises should be reinvestigated. Also, future research on enterprise restructuring in Algeria should be carried out on a larger sample including enterprises with different ownerships - state, privatised and *de novo* - and the measures used in the questionnaire to tap on the concept of 'top management characteristics' should be tested again to evaluate their consistency. Though the questionnaire is a good instrument to use to measure this concept it has its limitation. It uses close-questions which consequently restricts the answer of the respondents. Other methods such as interviews and private company documents should also be used to collect data on this concept. In addition, to develop more understanding of enterprise restructuring and its determinants in a transition context, research should concentrate on enterprises operating in developing countries which moved to the free market system. The research should not focus solely on describing effective and ineffective enterprise restructuring but should significantly try to find answers to the following five questions:

1. How partnership with multinational firms affects enterprise restructuring in these countries and why multinational firms are attracted to these countries despite the multiple problems these countries have in many aspects of their environment whether political, economic or social;

2. Since technical skills are very important assets of an enterprise, how the shortage in these skills affects enterprise restructuring in these countries and how enterprises that restructured effectively managed to overcome this shortage;

3. Enterprises cannot operate without adequate information about their customers, their suppliers, competitors and the state of the institutional environment in which they operate. The research should try to undersantand how the shortage and the inadequacy of market information affect enterprise restructuring and how enterprises that restructured effectively managed to overcome this problem;

4. The cultural values play a significant role in influencing and very often in shaping every aspect of a society. The research should try to understand how these values affect enterprise restructuring and affect the institutions that interact with the business enterprise;

5. Why the ex-colonised populations still regard the former colonial powers with suspicions and how this suspicion affect enterprise restructuring and the functioning of the market institutions.

In conclusion, despite the limitation in the research methodology used in this study, this study has made some contribution to our understanding of enterprise restructuring and its determinants in a context of transition. It clearly shows that the experience of the ex-communist countries on this matter cannot be considered universal. True, there are some common factors that affect enterprise restrucruring regardless in which industry the enterprise operates and in which geographical location the enterprise is found. For example, the trend in the market has a significant impact on enterprise restructuring. An enterprise operating in an industry with no markets will incur losses whether this enterprise operates in the USA or in Jakarta. Other factors which will have similar effect on enterprise restructuring, regardless in which geographical location the enterprise is found and in which industry it operates, are the state of the technical skills and the market information in the country. Without doubt, the most important of all environmental factors affecting enterprise restructuring is the political situation in the country. The study shows that the main ingredient for any transition to the free market is the political stability of the country. The political instability of Algeria since 1989 has created a fertile ground for corruption, brain and technical drains, a transition to the free market with a very slow progress and severe economic and social problems. Therefore, policy makers should make sure to create the political stability in the country before engaging in any radical economic and social reforms.

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Appendices

Appendix A

Semi-structured interview questions

These questions were asked to chief executives and the enterprise general secretaries. The same questions were also asked to the appropriate managers.

Part One

1. Historical background

a. As a place to start, is it possible to describe in brief the history of your enterprise (ie. when it was created and how it evolved before the transition to the free market)?

2. Ownership structure

a. Who are the owners of your enterprise and what control power do they have in the short, medium and long terms decisions?

3. Extent of competition

a. How could you characterise the industry in which your enterprise operates eg. Does it rely on constant innovation, promotion, price competition, or quality.
(*The same question was asked to the division, marketing, R & D and production managers)*

b. Who are your potential competitors?
(*The same question was asked to division, marketing, planning and production managers)*

c. What kind of problems firms like yours encounter in their markets?
(The *same question was asked to division, marketing, planning and production managers*)

d. How do they go about to resolve them?
(*The same question was asked to division, marketing, planning and production managers*)

e. Do you study the strengths and weaknesses of your competitors?
(The same question was asked to division, marketing and planning managers)

f. What institutional problems companies like yours encounter?
(The same question was asked division and all functional managers)

4. Product Strategy

a. On what characteristics of the product(s) the customer bases its choice, eg, quality, price, packaging and so forth?
(The same question was asked division, marketing, R&D, planning and production managers)

b. Who are your potential customers?
(The same question was asked to division, marketing, planning and production managers)

c. Who are your potential suppliers?
(The same question was asked to division, marketing, planning and production managers)

d. How do you describe your relationship with your customers and suppliers eg, do you involve them in the specification of your products, in the quality of your products and services and so on?
(The same question was asked to division, marketing, R&D, planning and production managers)

e. What kind of information, companies like yours find it difficult to have or is inadequate and which is important in the specification of their products and services?
(The same question was asked to division, planning, R&D, marketing and production managers).

f. What products and services did you get rid off and those that you introduced since your enterprise was slated for privatisation?
(The same question was asked to division, marketing, planning, R&D and production managers).

g. Which functional department(s) has (have) seen more investments since your enterprise was slated for privatisation?
(The same question was asked to division, marketing, R&D, planning and production managers).

h. Do you export and what is (are) the product(s) that you export and to which countries?
(The same question was asked to division, marketing, planning and production managers).

i. What kind of tools companies like yours use to attract customers?
(The same question was asked to division, marketing, planning and production managers).

5. Organisational Structure

a. Which department(s) has(ve) been installed since your enterprise has been slated for privatisation?
(The same question was asked to division, marketing, R&D, planning, HR, and production managers).

b. Which department(s) has(ve) suffered a lot in terms of the reduction of its work force and investments since your enterprise was slated for privatisation and why?
(The same question was asked to division, marketing, R&D, planning, HR and production managers).

c. In which department(s) do you find difficulties to recruit skilled workers and managers?
(The same question was asked to division, marketing, R&D, planning, HR and production managers).

d. How much discretion division and functional managers have in taking decision concerning the operations of their divisions or departments?
(The same question was asked to division and all functional department managers).

e. On what criteria do you evaluate the performance of the divisions and the functional departments?
(The same question was asked to division, all functional managers, and managers at the trade union UGTA).

f. On what criteria do you evaluate the performance of division and department managers?
(The same question was asked to division, department managers and managers at the trade union UGTA

g. What kind of strategies companies like yours follows to reduce costs?
(The same question was asked to division, functional managers and to managers at the trade union UGTA).

h. What kind of conflicts exist between the various divisions and functional departments and how these conflicts are resolved?
(The same question was asked to department managers and managers at the trade union UGTA).

6. Employment Practices

a. How much changes have been introduced since your enterprise has been slated for privatisation in the policies of recruitment, evaluation and compensation of managers and workers?
(The same question was asked to division, department managers, managers at the CNAT and managers and workers at the trade union UGTA).

b. How do you describe the participation of workers in the decision makings of the enterprise? Has it decreased or increased since your enterprise was slated for privatisation?
(The same question was asked to division, department managers and managers and workers at the trade union UGTA).

c. Have you privatised any of the assets in your enterprise?
(The same question was asked to division and department managers, managers at the ministry of industry and managers at the trade union UGTA).

7. Miscellaneous

a. How do you describe the relationship between your enterprise and the government administration since your enterprise was slated for privatisation?
(The same question was asked to division, department managers and managers at the trade union UGTA).

b. What is your position towards the privatisation of the state enterprise in the country?
(The same question was asked division, department managers, managers at the CNAT, managers at the ministry of industry and managers and workers at the trade union UGTA)

c. How do you describe the institutional environment brought by the transition to the free market economic system?
(*The same question was asked division and department managers, managers at the CNAT and managers at the trade union UGTA).*

d. Do you have any advice you can give to the government policy makers regarding not only privatisation and enterprise restructuring but the whole process of transition to the free market economic system?
(The same question was asked to division and department managers, managers at the CNAT, managers at the ministry of industry and managers and workers at the trade union UGTA).

Part Two

Additional questions asked to division and functional department managers

1. What kind of participation do you have in the corporate strategic decision makings?

2. What new technology and procedures were introduced in your division/ department since the enterprise was slated for privatisation?

3. What kind of skills are in short supply in your division/department and how do you go about to solve this shortage?

4. Do you have the power to retain any profit you make and reinvest it in your division/department?

5. What should be done to improve the financial and efficiency performance of your division/department?

Part Three

Additional questions asked to the Human Resources managers.

1. What kind of changes has been introduced in the labour market since the country has moved to the free market economic system?
(*The same question was asked to the managers at the CNAT and at the trade union UGTA).*

2. What means do you use to advertise for vacant position in your enterprise?
(The same question was asked to managers at the CNAT and the trade union UGTA).

3. What instruments do you use in the selection and recruitment of managers and workers?
(The same question was asked managers at the CNAT and managers and workers at the trade union UGTA).

4. From which professional discipline the majority of managers come from and what skills needed in a competitive market do they lack?
(The same question was asked to managers at the CNAT and the trade union UGTA).

5. What are the welfare services to workers that have been abandoned and those that are still provided to workers?
(The same question was asked to managers and workers at the trade union UGTA).

6. Have worker turnovers increased or decreased since your enterprise has been slated for privatisation, and why?
(The same question was asked to managers and workers at the trade union UGTA).

7. On what criteria workers are promoted to managerial positions?
(The same question was asked to managers and workers at the trade union UGTA).

8. Which category of workers in your enterprise has had more training, and on what skills and why?
(The same question was asked to managers and workers at the trade union UGTA).

9. What incentives should be put in place to motivate workers and managers to be efficient?
(The same question was asked managers at the CNAT and managers and workers at the trade union UGTA).

10. What institutional reforms would you like to see in place to improve the
performance of your department in particular and your enterprise in

general?

(The same question was asked to managers and workrs at the trade union UGTA).

Appendix B

Unstructured Interview Sample

This is a sample of one of the questions asked to the manager of the conflicts and social affairs at the headquarters of the trade union UGTA. The question was about how the President General Managers were selected and recruited in the state and privatised enterprise in Algeria.

Interviewer: Could you please describe to me how the PGMs in the public and privatised enterprises in Algeria are selected and recruited?

Interviewee: Well, concerning this question, I can say that there is a special instruction, from the head of the government of the 29 January 1995, which is related to the fundamental criteria for the pre-selection of candidates. That is to say, the holdings have to pre-select the candidates. They should study these candidates based on their level of training, their professional level, I mean their professional experience and also on specifique criteria and especially those relative to the protection and the security of the enterprise's assets and the history of the country. There is for example the criterion of being sons of martyrs in the war for liberation of the country, the political past of the candidate or his family. Well, these additional criteria in addition to the academic qualification and the professional experience have been re-underlined after 1990 where the state had to position the personnel which remained loyal to the state direction and therefore to its institutions.

Interviewer: Do you mean the recruited candidates have to fulfil the state directives?

Interviewee: In a way, yes. They have to protect the public sector. Since the sixties, the state as the state chose the best managers for its institutions and the reservoir of these managers were the army and the party. Managers were selected from two institutions, from the army, from the Armeé Populaire Nationale (ANP) and from the unique political party, from the Front de Libération National (FLN) because these two institutions had the cream of the population at that time. It was since the second decade where Algeria started to yield the fruits of its strategy, where the Algerian university started to give its fruits, where the training of Algerians abroad started to give its fruits. In the independent Algeria, the responsible [manager] must enter in the world of the system. What do I mean by a system? It is not a specific system for a dynasty but a system for a country which was colonialised where the tractor was something very significant. We were in desperate need to catch up with the modern world and also to avoid the dispute over inputs. We had to choose a system. As far as the choice is concerned I am going to tell you in brief. In 1967, Algeria prepared the first three years plan. There was a question on the choice of plans. Some opted for the development of agriculture, others culture and others for the industry. Boumedienne asked them how to develop the sector of agriculture. Each of them had given his philosophy but their philosophy was dependent on foreign countries. Boumedienne had given them that to have a productive sector, this sector requires some conditions. The first condition is the mechanisation of the sector. Do we have an industry which ables us to create a mechanisation? Of course, no. Secondly, do we have chemical produits? Of course, no. Do we have universities which produce skilled manpower in agriculture? Of course, no. What concerns the culture, to have physicians, ingeneers etc you have to have universities, did we have universities at that time? No. To build universities, we need metal, mortar and we need and we need. Do we have these means? No. The only choice at that time was heavy industry. We had to invest on EL Hadjar. First, El Hadjar can absorb a good quantity of unemployment. Second, it gives us the raw material. This raw material allows us to build hospitals, primary and secondary schools and universities. This choice allows us to create backward and forward factories. The SNMETAL was created. The SNMETAL created us the cranes, the SONACOME created us trucks and small vehicles. This choice was the only choice, rational, objective and logique for a country which was colonised and its economy was entirely linked to the economy of the colonial powers.

Pause: *The interview was interrupted by a phone call for the interviewee.*

Interviewee: Yes, I can say that if we can make an economic study since 1962, from 1962 until 1970, we were in a phase where the state was looking for itself. It tried to build up the pillars of the state, it tried to answer to the most oppressed of the population because in 1962, children had to eat, families had to work. Now Algeria is standing. Now Algeria has a state which is standing. If for example the black phase, or the black decade known to Algeria from 1992 to 1998 which had whistled on Algeria had also whistled on Morocco or on Tunisia, I swear to you that these two countries would have been lifted from the map. The question now as Algerians we should carry out an analysis on this phase without any emotions and without any constraints. This analysis should enveil what really happened in our country.

Interviewer: You mentioned that the PGMs in the public sector have been selected and recruited since independence from the army and the FLN to serve the objectives set by the state. Are they today still selected in the public and privatised enterprises from these two institutions?

Interviewee: Yes, they are still selected from the army and the FLN and also from other influential factions in the state. These managers have to put in place what the state wants. It is a sort of clans. Every minister will select the PGMS he can trust and he can rely on to implement his decisions. You do not have to see far our enterprises are full of anaam sidi [yes master].

Interviewer: On this point, I want to ask you on what criteria an employee is promoted to a senior management position?

Interviewee: The answer is very simple. In the public sector we have a written legislation. The policies for promotion are written in the internal regulation of the enterprise and also in its conventions. These instruments have been created with the promulgation of the law 90-11. Before, it was the charter of the GSE. I have already given you ordinance 71-74. If you have read this ordinance, workers participated in different commissions. They were given a lot of power to expose their problems. But the decisions the workers took were not vitale. They gave only their opinions because the worker who was elected in the worker councils did not have the intellectual capacity like the general manager. Perhaps there were some who were intellectual but not with a university level. The legislator was deaf. The Algerian worker his roots were a real paysant. His mentality was a feudal mentality. To change this mentality towards a political system very developed which was our main objective it was not easy. I can say that after 1979, they have thrown all the problems for development on the table and it was very difficult to take back what was left to take back. Even in 1989, the public did not ask for anything, the public had asked something noble. It had asked the rehabilitation of the political notion. It did not ask for bread. We were not hungry. A senior manager or any person with responsibility who commits a mistake should not be promoted, he should be punished but it was not the case between 1984 and 1988. A worker who made a mistake he was right away punished and if he had stolen who was right away sent to the justice tribunale. But when a minister put the whole economy to its knees, he is never punished. I am going to give you the example of the head of government Abdel Hamid Brahimi. The first five years plan (1980-84)

Pause: *The interviewee asked one of the employees there to bring some water and asked me if I wanted coffee or some refreshments*

Interviewee: Eh, what were we saying? Yes, I was saying Brahimi, it was him who had elaborated the plan. He based the plan for development on consumption with low regard to production without any regard to productive investments. He had created only unproductive positions and he had made an explosion in the number of public enterprises. An enterprise which had 20,000 workers was restructured to give birth to five enterprises. Rather than having one secretary, now we have five and rather than having one chauffeur, we have now five. Before this happened, Algeria was developing with steps of a geant. Every day we saw inaugurations either of one plant of production or one enterprise. At that time, there was someting to inaugurate, there were investments. If there were five applications for jobs you would expect five recruitments. Today, Algeria has reached a level where unemployment has become unemployment of luxury. What it means, unemployment of the intellectuals which means the university graduates. I do not think this is the case in the capitalist countries. The irony is that our country is in a desperate need of these graduated. We need them everywhere. We have 300,000 graduates unemployed. 300,000 graduates who have been educated and trained from our national production and with tens of millions of dinars. Why they are unemployed? Because today we have given priority only to the quick needs of the population. It is the consumption. Eh, it is the consumption. For me a centre for culture is not a project which brings me creation of employment. For me a swimming pool is not a necessary project. At the moment, the most important thing which we should create and put it on the rail of development is the intensification of investments in productive means. They talk about the transition to the free market and they required us to follow their democracy in a short time of two years. Them it took them almost two centuries to have this democracy they are talking about. It is not possible. Really, it is not possible.

Pause: *He stood up to take a file from a cabinet*

Interviewee: Us, our religion dictates on us to have democracy. Also, in our constitution. Islam is the religion of our state. Islam is the religion of collectivity. Every science, every way of life is in our Koran. For me somebody who does not faste should not be given a position of responsibility. Somebody who does not do his prayer should not be given a position of responsibility. To create a state it will take years. Men come and go and we want a state which lasts. But here in our country it is not the case. A person with responsibility should be responsible and not the opposite. The thing is that we do not have real men who can take responsibility. Our religion requires us to be educated. Look at us we still have the majority illiterates. Everything is in our Koran. Even our imams (priests) are not all from the university. In real terms, they do not know what many verses of the Koran really mean in our modern life.

Interviewer: Are you telling me that an employee is promoted not because of his competence but how much he can serve the political agenda of the minister?

Interviewee: In short, the minister selects the PGM who is loyal to him and the PGM promotes the worker who is loyal to him and so on. Loyalty is very important in our enterprises. What can I say, this is how it works.

Interviewer: If the procedure for the selection of PGMs did not change much since independence, what about the compensation of the PGMs. Any changes have happened in their compensations?

Interviewee: Before 1990, the salaries of managers were set by the SGT of the year 1978. Did I give you last week the legislation of the SGT?

Interviewer: Yes, you gave me.

Interviewee: If you have read it, you noticed that jobs were divided into categories and the calculation of the salaries were based on these categories. The legislation was enacted in 1978 and not long Boumedienne died. It took five years before the SGT was implemented, only in 1984. They delayed its implementation because they tried to empty the law from its economic conception. This is a long story, I do not want to go on it now. They have brought us the minimum wage and they want now to increase it by 100 percent. If you earn 100 dinars and another person earns 10 thousand dinars, the gap between the two earnings is very big. Before salaries were controlled but today nothing is controlled except the minimum wage. Now, I come back to your question. The PGMs are paid in relation to the minimum wage. A good increase in the minimum wage means that the PGMs and GMs will yield a very good fruit. The minimum wage concerns more the PGMs and the GMs than anybody else. Today we have women who are 40 and more and men 50 and more who cannot get married because they do not have money. They say that they do not want to bring children to this world to suffer like them. If you ask me how to solve the problem, I can say that I am with people who say we have to stop investing in sectors which do not create employment and the wealth of nations. At the present time, investing in building construction sector is vital. We should give more power to the Algerians and have a clear framework for building the country. At the present, at the present, the boost which has made the Algerian society bursting is the problem of housing and salaries. In my views, these two areas are important and the head of the country should put in place a strategy in order resolve these two areas. I can summarise the answer to your question in one sentence. The transition has made the heads of the public enterprises and members of the government richers and the ones who are suffering most are the workers, the university graduates and the pensioners.

Appendix C

Questionnaire Covering Letter

This questionnaire is part of my research for a Phd degree in management. The topic for this research is about restructuring of the Algerian enterprises slated for privatisation. I have already done interviews with the majority of managers in your enterprise. This questionnaire is a complementary to these interviews and it is also an important part of this research. I would be very grateful if you could spare some of your precious time and fill in this questionnaire. You can give your answer by ticking the appropriate answer(s).

Questionnaire

1. Are you?

- ❒ **Female**
- ❒ **Male**

2. Is your age between?

- ❒ **16-25**
- ❒ **26-35**
- ❒ **36-45**
- ❒ **46-55**
- ❒ **56-65**
- ❒ **66-75**

3. What is your academic qualification?

- ❒ None
- ❒ Middle school level
- ❒ High school level

- ❒ Bachelor degree
- ❒ Master degree
- ❒ Phd degree
- ❒ Other, please specify

____

____

4. In which academic discipline did you obtain your qualification?

- ❒ Legal studies
- ❒ Economic studies
- ❒ Administrative studies
- ❒ Ingineering
- ❒ Other, please specify

____

____

5. What is your job position in this enterprise?

____

____

6. For how long have you worked in this enterprise?

- ❒ Less than a year
- ❒ 1 year
- ❒ 2 years
- ❒ 3 years
- ❒ 4 years
- ❒ More, please specify

____

____

7. Has your present enterprise been the only enterprise you have worked in since you started your working career?

- ❒ Yes
- ❒ No

If your answer is no, please answer questions 8, 9 and 10.

8. In how many public enterprises have you worked?

- ❒ None
- ❒ One
- ❒ Two
- ❒ More, please specify

____

____

9. In how many private enterprises have you worked?

- ❒ None
- ❒ One
- ❒ Two
- ❒ More, please specify

____

____

10. In which of the following government ministries have you worked?

- ❒ None
- ❒ Ministry of commerce
- ❒ Ministry of finance
- ❒ Ministry of industry
- ❒ Ministry of energy

- ❒ **Ministry of agriculture**
- ❒ **Ministry of planning**
- ❒ **Other, please specify**

____

____

11. In which functional departments have you worked and for how long?

Departments	**Number of years**					
	0-1	**2-6**	**7-11**	**12-16**	**17-21**	**More, please specify**
Production						
Research & Development						
Commercial/ Marketing						
Finance/ Accounting						
Human Resources						
Products inspection/control						
Purchases/Sales						
Planning						
Audit						
Legal						

12. Have you been promoted to the position you are occupying now?

❒ **Yes**
❒ **No**

If your answer is yes, please answer the next question.

13. From which functional department have you been promoted?

❒ **Production**
❒ **Commercial/Marketing**
❒ **Research & Development**
❒ **Personnel/Human resources**
❒ **Planning**
❒ **Finance/Accounting**
❒ **Other, please specify**

____

____

14. In which skills have you had training and development in your present enterprise?

❒ **Finance/Accounting**
❒ **Planning**
❒ **Strategic and quality management**
❒ **Evaluation of cost and price**
❒ **Marketing**
❒ **Other, please specify**

____

____

Thank you very much for your cooperation