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A MODEL FOR RESTRUCTURING STATE OWNED CORPORATIONS OR "PUBLIC ENTERPRISES" IN EGYPT

BY

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ABSTRACT

Before the revolution of 1952 in Egypt, all business corporations were private. However, despite the keen competition of international and foreign corporations, most of the domestic corporations were profitable. In July 1961, for political reasons the Egyptian government nationalized all international, foreign, and domestic corporations which became known as public enterprises.

To manage the large number of nationalized corporations, 39 "Public Organizations" were established as policy and strategy formulating agencies. However, the public organizations' management interfered in the internal affairs of the public enterprises, with the concomitant result of inflexibilities. Besides, the overriding objectives of public enterprises as articulated by the government were social rather than socio-economic, with the result that many of them experienced low productivity and negative earnings. The effort to increase the productivity and profitability by stripping the public organizations of their powers in 1973 failed because it was too little, too late. Allowing private corporations to operate in Egypt, since 1974, has also put more pressures on public enterprises, leaving them less protected from private sector competition.

At present, the Egyptian government is trying to devise a new strategy in order to solve the problems of public enterprises. Using the Borg-Warner Model to asses the weaknesses and strengths of each public enterprise and to assess the attractiveness of the industry in which the enterprise operates is helpful in devising such a strategy.

The application of the model is amply demonstrated by actual, practical examples based on published data and on interviews with top managers of public and private enterprises as well as with Egyptian academicians. It was found that many enterprises may be better off through privatization, or as domestic or international joint ventures. It was also found that the public enterprises which are going to be kept by the government need to be given the same management flexibility available in the private sector.

INTRODUCTION

State owned corporations can be divided into two major categories. The first category usually called "Public Authority" is the traditional one in the sense that, except in the U.S.A., this type of public corporation is normally owned and operated by the state in most countries of the world. This category includes activities such as railroads, telephone and telegraph, electricity, television and radio broadcasting, and infrastructure.

The second category of state owned corporations is the non-traditional one in the sense that, except in communist countries, most of the activities in this category are normally owned and operated by private enterprises. This category includes manufacturing, agriculture, wholesaling, retailing, banking, and the like.

It is worth mentioning that some of the segments or subsegments of the non-traditional category may be owned and operated by the state in many non-communist countries. According to a recent report from the United Nations, "in France, the state owns and operates about 70% of the banking institutions and all of the Renault Motor Corporation. Likewise, in the United Kingdom, the State owns and operates the Iron and Steel Corporations. However, the tendency in Western Europe has been toward privatization of most of state owned business corporations due to the consistent inefficiencies and losses of those public corporations and to encourage private investments in such corporations."[1]

In 1956, following the nationalization of the Suez Canal, Great Britain, France, and Israel attacked Egypt, subsequently, all foreign owned businesses were put under sequestration. In 1961, the Egyptian government nationalized all international, foreign, and domestic corporations. These state owned corporations became known as "public enterprises."[2] Until 1974, public enterprises were the only corporations permitted to operate in Egypt.[3] However, the performance of many of these corporations was poor; and decreasing productivity and negative earnings were draining the economy of vital resources. Consequently, public enterprises needed continuous subsidization in order to survive.

In 1986, President Hosni Mubarak of Egypt cited the problems of public enterprises as a major concern to the Egyptian people in general and specifically to the policy makers. He asserted that the public enterprises which were not important to the Egyptian economy would be, henceforth, considered for privatization.[4] However, to date no specific strategy or model has been devised to assess the strengths and weaknesses of each public enterprise in order to take appropriate measures to improve their performance either through privatization, making joint ventures, or by strengthening the profitable ones.

This paper, in four parts, provides an analysis of the evolution of public enterprises and an analysis of the overall performance of the Egyptian state owned corporations, "public enterprises," and offers a proposal for an action-oriented model which will help assess each one on an individual basis. The proposed model includes specific examples of application to various public enterprises with varying degrees of strengths and varying degrees of attractiveness. The definitions of "strengths" and "attractiveness" are given below in Part III. Part I includes a brief historical background of the evolution of public enterprises in Egypt; Part II analyzes the problems of these enterprises after the revolution of 1952. Part III provides the proposed model for restructuring the business sector in Egypt and gives examples of application of the model to specific public enterprises. Part IV provides conclusions.

The method of approach used for the purpose of this research is auditing annual reports of Egyptian corporations before and after nationalization, auditing the laws of nationalizations and investments, and interviewing business managers from both the private and public sectors, as well as academicians.

PART 1A: THE EVOLUTION OF PUBLIC ENTERPRISES

Before the 1952 revolution, all business enterprises in Egypt were private. Some corporations were single product line, such as the Shurbagui group, which concentrated on clothing. Others were diversified as Ideal, which produced appliances, bedding springs, kitchen cabinets, and office equipment. The third group of corporations were conglomerates such as the Abboud group, which engaged in cement, fertilizers, iron and steel, shipping, and real estate; and the Misr group, which engaged in textiles, movies, airlines, food processing, and financial services. All the wholesale and retail trade was in private hands; the majority being either domestic or foreign small businesses. The larger retail and wholesale businesses were owned primarily by foreigners and most were more efficient than the domestic or foreign small businesses because they could provide a better range of goods and services and because of their foreign contacts. Except for the Misr group bank (Bank Misr), the Agriculture Credit Bank, and the Real Estate Credit Bank, all banks were internationally owned. One of the major activities was cotton export, which was controlled by the British, though the trading was handled by some Egyptian corporations such as the Farghali group.[5]

Records before 1961 indicate that most domestic, foreign, or international corporations doing business in Egypt did not experience setbacks. The only major setback was in Bank Misr, during World War II, due to wartime activities and the keen competition from international banking institutions in Egypt. The Egyptian government bailed out and saved Bank Misr from bankruptcy in the 1940s.[6] Since then Bank Misr has become successful. This was the only major incidence recorded of a division of a domestic corporation which experienced a setback prior to the revolution. Thus domestic corporations were successful in competing with foreign and international corporations up to 1952. Their success was mainly due to adopting the following strategies to varying degrees from one group of businesses to another:

1. Entering into business activities which used internal resources such as raw material and labor as much as possible, and thus, creating a differential advantage in production. In order to raise productivity, many workers and employees were trained both at home and abroad, generating the target result of cost reduction.

2. Entering manufacturing business activities which catered to the needs of the lower-middle and lower economic classes to avoid direct competition with international and foreign firms which catered to the needs of the middle and upper economic classes, thus concentrating on the mass market domain.

3. Entering into business activities which took advantage of the abundant cheap labor in Egypt by using what is called labor intensive technology.[7]

4. Entering into manufacturing activities which were not controlled by foreign or international corporations in order to achieve an optimal share of the target market, thus creating the target result of share of the market.

5. Entering one business activity at a time and selecting the appropriate thrust, domain, differential advantages and target results for diversification.

6. Entering the manufacturing business activities which were controlled by foreign or international corporations as <u>collaborators</u>; either by helping in the distribution of the imported products or services in Egypt or by assisting in supplying the assortment of goods and services for export markets. This created mutual, beneficial coexistence.

7. Entering wholesale business activities which catered to the needs of small domestic businesses, leaving most wholesale business activities which catered to the needs of large international and foreign retail businesses to foreign-owned organizations.

8. Entering retail business activities which catered to the needs of lower-middle and lower economic classes, leaving the retail business which catered to the needs of middle and upper economic classes to foreign and international establishments.

Foreign and international businesses were powerful mainly because the independence treaty of 1936 with Great Britain was not fully operative during to WW II. Therefore many large corporations at all levels of business were in foreign hands. However, to accommodate domestic labor, legislation was passed by the Egyptian Parliament in 1939 specifying that all corporations should employ Egyptians in at least 65 percent of their white-collar jobs and 90 percent of their blue-collar jobs.[8] Despite the powers of the international and foreign corporations, most Egyptian corporations were successful because they adopted the strategies specifying their domain, differential advantage, thrust, and target results.[9]

It should be noted that there was widespread resentment by Egyptians against foreign and international corporations because of their exploitation of domestic labor by paying low wages, their exploitation of consumers by taking excess profits, and their exploitation of the masses by paying low taxes. The attitudes of Egyptians toward domestic corporations were mixed, with the majority supporting them because of their record as large employers of domestic labor and catering to the needs of the vast majority of the population.

PART 1B : THE EVOLUTION TOWARD NATIONALIZATION OF CORPORATIONS

It was not until October 1956 that the Egyptian leadership began to give intense scrutiny to international and foreign firms. In May 1956, the United States had pressured the World Bank to withdraw their offer to finance the building of the High Dam in Aswan, Egypt. In July 1956, the then president of Egypt, Gamel Abdel Nasser, responded to the withdrawal of financing of the High Dam by nationalizing the Suez Canal, one of the world's major shipping waterways, which was owned by France and Great Britain but which was in Egyptian territory. This was the beginning of the Egyptian government's control of business in their nation.

As a result of the nationalization of the Suez Canal the British and the French, along with Israel, attacked Egypt. That attack prompted the Egyptian Revolutionary Council to put all foreign and international firms under sequestration. Many reasons were given for sequestration, among which were the following:[10]

1. Many of these foreign and international firms were sympathetic to the attack by Britain, France, and Israel.

2. Most of the foreign and international firms reduced their business activities to create economic recession in order to embarrass the regime.

3. Many of these firms engaged in illegal repatriation of capital, profits, and, more importantly, hard currency by paying abroad for machines, products, materials, and services which they had no intention of procuring. There were documented tacit agreements between many Egyptian-based foreign corporations and overseas banks to keep the transferred amounts abroad.

4. Many of those foreign and international businesses in Egypt exported products, deposited the proceeds abroad, and did not transfer them to the firm's bank in Egypt.

In order to control the operations of sequestered foreign and internationally owned firms, the Egyptian government appointed two members to the board of directors of each corporation. To oversee the overall operations of these firms, the Egyptian government established "The Economic Organization" (T.E.O.) in February 1957.[11] The main functions of T.E.O. was to monitor the decisions made by the sequestered firms and veto any decision which, from the point of view of experts of T.E.O., was harmful to the Egyptian economy.[12] T.E.O. was chaired first by a member of the Revolutionary Council, who was replaced in 1959 by a professional economist. T.E.O. employed a pool of professionals in various business activities and had a council of experts in business who advised the board of directors and the chairman or managing director on policy matters.

The second chairman began massive search to place the most qualified representatives on the boards of directors of sequestered firms. He also began to look for new ventures which could be jointly financed by the public and private sectors. The Egyptian government began to invest in firms such as iron and steel which were not attractive to private investors because of low profitability and high risk. Thus the role in business of The Economic Organizations became dominant.

The consistent remarks of the leaders of the revolution about exploitation of labor, consumers, and the masses resulted in a lack of trust by major domestic corporations, particularly those which were dealing with foreign and international firms, causing them to reduce their activities and to be wary of the intentions of the government as a whole.

On July 23, 1961, the late President Nasser announced the nationalization of all corporations whether domestic, foreign, or international. All the top managers of the three groups of corporations were ousted. All the foreign managers in any group and some of the middle managers of the domestic corporations were ousted. To replace this large number of top managers, many retired military officers were appointed on short notice as chairmen of the boards of the public enterprises. A few civilians from government and from middle management of corporations were appointed as chairmen also. The retired military officers may have been excellent officers, but they had no experience in managing business enterprises at the top level. Neither did the civilian middle managers who were suddenly promoted to chairmen have experience other than at the operational level of business.

To fill the gap in middle management, a number of first line supervisors were suddenly promoted to middle management positions.

However, they were not trained to advise top management in strategy and policy matters and to implement top management decisions. Therefore, most of the people in the above mentioned three groups did not have the tools of running the economy. However, some new top managers did fare very well either because, before joining the military, they were university graduates, or because they had had management training at home or abroad. The majority of those were engineers and few of them had had business training.[13]

To fill this vacuum in management, many managers had to undergo business management development programs. In order to train the bureaucrats in government and other institutions, many top government officials had to undergo training in executive development programs.[14]

The economic situation became unwieldy. To coordinate the activities of each sectorial group of corporations, the Egyptian government dissolved "The Economic Organization" because it could not coordinate and oversee over 600 corporations. In its place they established 39 sectorial Public Organizations (S.P.O.'s). Each S.P.O. was to oversee all the firms in its particular sector. An example of the sectorial "Public Organizations" is the S.P.O. for Ginning and Textiles. The original intention of establishing those 39 S.P.O.'s was to make them overall strategy and policy formulating as well as coordinating agencies. However, the language of the law establishing them was so vague that most ended up interfering in the internal affairs of the public enterprises. Many Egyptian and foreign management experts warned at the time that the language of the law would lead the public enterprises to be run as government bureaucracies with the concomitant result of declining productivity and profitability.[15]

A related problem was that the law of nationalization included a provision that no corporation was permitted to be in the hands of private ownership except small businesses, and they suffered from a lack of investment opportunities and a lack of competition. Thus, the controlling structure of the public enterprises, the appointment of untrained top managers, and the lack of investment opportunities led many corporations which were highly productive and profitable to turn unproductive and unprofitable.[16]

PART II: PROBLEMS OF STATE OWNED CORPORATIONS AFTER THE 1952 REVOLUTION

Due to the lack of trust between the Egyptian government and the business sector and the government's shift of focus to social objectives, to the exclusion of economic ones, the state owned corporations went through a long period of turmoil following the revolution. Organizationally complex interrelationships between the business sector and government bureaucracy resulted in the inflexibility of business practices, more losses of business, and a sharp decline in productivity. Because the ruling and the only party at that time wanted to show that socialism was the only road for socio-economic development, many business problems were not disclosed to the public and the state owned corporations did not have to disclose their financial positions.

The major problems of the state owned corporations in Egypt can be summarized as follows:

1. Prices of products and services were centrally determined by the Public Sectorial Organization and, in most cases, below costs. Thus refrigerators, cars, television sets, and the like were priced below cost despite the fact that most of the parts were imported in hard currency. To cover losses of the public corporations, the value of hard currency was calculated at unrealistically low exchange rates. The private sector was denied hard currency and importation to force it to buy from the public sector. As a consequence, a major source of evaluating performance of the public sector was eliminated because of lack of competition.

2. The government dumped into the public sector many retired military officers, the majority of whom were not trained to manage business enterprises. The majority of them ran the public sector as if it was a government bureaucratic organization. Needless to say, the establishment of management institutes in Egypt helped to ease this problem.

3. The government entered many activities which could have been handled far better by the private sector. Thus, state owned corporations entered into business in food processing, fast food chains, grocery store chains, gas stations, department stores, and movie studios to name a few. Most of these corporations sold products and/or services at controlled prices, far below costs. The balance was paid by subsidies which have made Egypt's debt one of the highest in the world. Recently, The World Bank asked the Egyptian government to eliminate subsidies for businesses within 18 months, whereas the government asked for a 36-month grace period.[17]

4. In order to show that the "public sector" is successful, the supervising ministry ordered top managers to hide losses by making low depreciation and low reserves in order to inflate profits or turn actual losses into profits. This resulted in leaving most public corporations without the reserves necessary for machinery and equipment replacements. Since those replacements are imported, primarily, the pressures on the Egyptian balance of payments and debt service have been consistently increasing. At the same time, productivity has been declining and the costs of production and marketing have been mounting, resulting in a very high annual rate of inflation.[18]

5. To reduce the ever increasing unemployment, the government dumped excess labor into public enterprises without regard to

either the workers needs, nor to the necessary qualifications of the jobs themselves, resulting in a lack of productivity and increased costs. According to an International Labor Organization (I.L.O.) study in 1985, public enterprise workers worked far less than 50 percent of the time. The practice of dumping excess labor into the employment pool has continued despite the frequent call by top business executives to relate the educational system to the needs of the labor market.[19]

6. Adding to the above problem, the workers in public enterprises have been given automatic tenure. Top managers of those enterprises cannot fire any worker unless he or she does something illegal. Thus inept, careless, or unproductive workers have secure jobs the same as efficient, productive ones. To compound the problem, unproductive workers have been promoted on the basis of seniority regardless of performance.

7. Many profitable public enterprises were forced to sell at a loss to other public enterprises in the same sector or related sectors to subsidize those losing corporations, resulting in demotivating the successful managers and covering up for the mediocre, unsuccessful ones.

8. Aggravating the above situation is the Egyptian law which specifies that public enterprises are not subject to bankruptcy suits or foreclosure. This has resulted in many enterprises not paying their debts. A concomitant result is that public enterprises which sell or lend other public enterprises have no resource to get their money back except by complaining to the Public Authority of the sector or to the minister in charge of the sector. Many private businesses have reduced their sales to public enterprises because most of them do not trust that they will get their money back on time, if at all.[20]

9. "The Sectorial Public Organizations" which were created to formulate policies and strategies for the sectors, have consistently centralized their authority. Therefore the public enterprises' management have been operators receiving directives from above, further deteriorating the ability of most to perform in a business-like fashion. In essence, most public enterprises have become highly bureaucratic, with all the inflexibilities of such institutions.[21]

10. Adding insult to injury, all public enterprises were subject to the control of many governmental agencies. Each public enterprise was subject to the control of the Sectorial Public Organization, the Ministry under which the activity of the enterprise fell, the Ministry of Finance, the Ministry of Economy, the Ministry of Labor, the Central Agency of Accountability, the Central Agency of Organization and Management, and the Ministry of National Planning.

11. Although the Administrative Units which have replaced the Public Sectorial Organizations as the coordinating units were stripped of many of the powers vested in the latter, they have not been able to effect basic reforms in the public enterprises in order to enable them to compete in the marketplace. This is due to the consistent decline or stagnation in productivity for most public enterprises and for all the other reasons cited above.[22]

12. The open door policy advocated in 1974 by Late President Anwar Sadat, and the subsequent law of foreign investment, and the policies of encouraging private business have taken the public enterprises by storm. They have lost their protection from private domestic and foreign competition. However, the bureaucratic machinery of government has made the investments process very difficult by requiring complex and time consuming certifications and endless forms. Despite these problems facing investors, many domestic and foreign businesses are competing very effectively with the now less protected public enterprises.[23]

13. Competition from private business has become keener since the floating of the Egyptian currency. At present the public enterprises buy dollars and other hard currency at the same rates as all other businesses. Since, the private enterprises are now more efficient, and their costs are lower, they are putting pressure on the public enterprises to lower prices and produce a better quality of products.

14. The pressure from general public and private businesses has intensified, since public enterprises are now required by law to publish their financial statements in two highly circulated newspapers. Many of the public enterprises which published their financial statements in January and February 1989 recorded either unprofitable or very low returns on investment.

15. Most of public enterprises which are engaged in exports have adopted the policy that what is acceptable to the Egyptian consumer is also acceptable to the foreign consumer, without sufficient studies of foreign market needs, thereby losing foreign markets. By contrast, all foreign investors and most domestic small businesses do produce products which are commensurate with foreign consumers tastes, preference, and physical attributes. However, the private sector finds it hard to export abroad since the exporter has to satisfy many requirements, has to fill out at least twenty-two elaborate forms, and has to go back and forth to many government institutions to obtain clearances of the shipments.[24]

16. At the start of this part of the paper, it was mentioned that one of the basic problems since establishing the state owned enterprises in the early 1950s was the overriding objective of meeting social needs even at the expense of meeting economic objectives. It would be expected that such a view would change

after the open door policy and the encouragement of foreign and domestic businesses occurred in 1974. Unfortunately, this is not the case. As late as January 16, 1989, in answering a question by a member of the People's Council about extreme and consistent losses of many public enterprises, an able and highly qualified economist, Vice Premier, Dr. Kamal El-Ganzoury said that the main objective of the public sector is social and not economic.[25]

PART III: A MODEL FOR RESTRUCTURING THE BUSINESS SECTOR

Before exploring the model for restructuring the Egyptian business sector it is necessary to discuss briefly the political situation at present in Egypt. Egypt has six political parties. Three of them are considered major. These are the National Party (the ruling party), the Wafd Party (conservative party), and the Socialist Unity Party (the leftist party). The Wafd Party espouses a conservative ideology that states that public enterprises have to be privatized. The Socialist Unity Party subscribes to a leftist ideology that public enterprises have to be strengthened and that all new private corporations have to be nationalized. The National Party follows a middle of the road ideology that states that public enterprises which are not essential to the economy should be privatized.[26]

Furthermore, the data and interviews collected for this paper reveal that not all public enterprises which are experiencing losses are unsalvageable. At the same time, enterprises which have experienced long periods of profitability such as the Suez Canal, the Egyptian Petroleum Corporation, and the Misr Company for textiles can be maintained as public enterprises. However, some other public enterprises which have experienced extended profitability can benefit from privatization or joint venture.

In other words, the interviews and data point to a policy of functionalism as an optimal alternative for restructuring the business sector in Egypt. Functionalism is defined as the process by which government takes over businesses that it can operate more efficiently or takes over businesses which the private sector is not willing to invest in because of very high risk and or very low profitability, provided that these businesses are essential to the economy. By the same token, private businesses should take over the activities of businesses which they can run more efficiently than government. In the words of former President Ronald Reagan, "Business engages in what it can do best and government engages in what it can do best."[27]

The model which is proposed to restructure the business sector in Egypt is the Borg-Warner matrix which is usually named the General Electric Model because it has been adopted successfully by the General Electric Company to analyze the position of its various business units. The X axis of the matrix denotes the strengths of the unit as measured by a composite of market share, profitability, productivity, and the like. The Y axis of the matrix denotes market attractiveness of the industry in which the business unit operates as measured by growth, competitiveness, technology, and the like. For the purpose of this paper the Y axis of market attractiveness will include growth and importance of the unit to the Egyptian economy, which President Mubarak has stressed frequently.[28]

Using the Borg-Warner Model enables the policy makers to assess the position of each public enterprise as to its strength in the market and as to the attractiveness of the industry in which each unit operates, as well as its relative importance to the Egyptian economy. Such assessments help decide which alternative is optimal to deal with each individual business unit. The alternatives are numerous, such as keeping the unit as a full public enterprise; selling the units to domestic investors; selling the unit to the workers in the unit; forming a joint venture with domestic or foreign investors; or a combination of the above.

The following matrix based on the Borg-Warner Model illustrates possible assessments of the Egyptian public enterprises.[29]

A Model for Restructuring the Business Sector in Egypt
Borg-Warner Model

High	**Serious entry market.** 7* Joint Venture with foreign investors from advanced countries.	**Selective growth.** 8* Keep as is if share of market and profitability increase or go to joint international ventures if decrease to salvage position.	**Maintain Position.** 9* Keep as is and struggle to maintain.
Medium	**Limited Expansion or Withdraw.** 4* Sell to labor or go into joint venture with them.	**Selective Expansion or Contraction.** 5* Depending on the direction of profitability and share of market, either keep or sell.	**Maintain Superiority.** 6* If unit is in intermediate growth struggle to keep position or if the company is in late growth try to go to joint venture.
Low	**Loss minimizing.** 1* Get out soon. Sell to domestic private sectors which may be able increase strength.	**Overall Harvesting.** 2* Get out immediately if declining fast or gradually if declining slowly.	**Limited Harvesting.** 3* The unit is a cash cow and has to be watched for decline Units in this category have to be segmented for salvage or sale.
	Low	**Medium**	**High**

Business Unit Strength

* denotes the position of the public enterprise unit as to strength and industry attractiveness.

From the above matrix it is clear that except for the enterprises which fall in the extreme positions, i.e., position 1 or 9, each public enterprise which falls in a specific position may require a different strategy depending on the <u>direction</u> of the business unit strength and the attractiveness of the industry in which that business unit operates.

For the public enterprises which fall in position 1 (low strength and low attractiveness), the option is clear. This type of business can be run more efficiently by the private sector, since the private sector is likely to help to reduce costs and to produce products and services which are in demand. In sum, the private sector is likely to increase its share of the market, since it will sift out the products which are eating up profitability. Examples of such enterprises are fast food, food processing, grocery stores, and movie studios and movie houses. The divestiture of such public enterprises is likely to be an encouragement for entrepreneurship and small businesses. Some may object to such divestiture on the premise that, if such enterprises are given to small business, the prices may not be affordable by poor consumers. Such a premise, which is always given by the socialists, is faulty on two counts. First, Egypt has a long-standing price control system, since the beginning of WW II, and the cost of control will be far less than the losses experienced by the public enterprises falling into position 1. Second, the majority of business people are fully aware of the law of supply and demand and are fully aware that they are in direct competition with other private business.[30]

For the public enterprise which falls in position 2 (medium strength and low attractiveness), there are at least two options, depending on the direction of strength. If the public enterprise has been experiencing declining market share and or profits, it has to be divested immediately. Examples of that are most state owned department stores. If the public enterprise has been stagnant in strength or has fluctuating strength, it has to be divested gradually by selling it to the workers and or to private investors. Examples of that are appliance enterprises, television and radio manufacturing enterprises.[31]

For the public enterprise which falls in position 3 (high strength and low attractiveness), the most viable option is to sell the enterprise to the private sector gradually. This will reduce the risk of waiting until the company becomes a burden on the economy. The private investor or the worker is more likely to buy stocks in a cash cow company than in buying a company in position 1 or 2. The proceeds of the sale of the public enterprise in position 3 is likely to be high and could be used to expand some other public enterprises in positions 6, 7, 8, and 9 which will be kept as public enterprises. Examples of this type of enterprise are gas stations which are state owned.[32]

For public enterprises which fall in position 4 (low strength and medium attractiveness), there are at least two options. The first option is withdrawal by selling the public enterprise to domestic investors, including labor, in the case where the firm has been having declining or consistently fluctuating strength. Examples of this type of firm are those in the building materials sector which have been experiencing consistent losses or a fluctuating low rate of return. The second option is limited expansion by going into joint ventures with investors, including labor. Examples of this type of enterprise are all building material businesses (except cement enterprises). The adoption of one of these options is likely to create more competitiveness in the market as well as more productivity, since a major part of these businesses will be privately owned. Studies have shown that private enterprise managers balance social and economic objectives more evenly than public enterprises managers, who act in most cases as public officials rather than as business managers.[33]

For public enterprises which fall in position 5 (medium strength and medium attractiveness) there are at least two options. The first option is selective expansion by involving private investors in public enterprises which are in the growth stage and are likely to have higher strength. The participation of the private sector in such enterprises will help finance the public corporations in higher positions, i.e., positions 6, 7, 8, and 9. Examples of this type of business are those in plastics and animal feed. The second option for public enterprises in position 5 is phased contraction to the private sector of companies which are experiencing consistent decline in strength. Examples of these enterprises are ready-made clothing and clothing fabrics which are not for popular use.

For public enterprises which fall in position 6 (high strength and medium attractiveness) there are at least two options, depending on the direction of the strength. If the strength is maintained consistently, the public enterprise is likely to be adequately managed and the rate of return is usually higher than the average for an enterprise in lower position of strength and attractiveness. The managerial, business-oriented culture in these corporations has to be preserved. Planned training for managers and workers has to be implemented and continued and market studies have to be conducted in order to keep the strength of the company from declining. Examples of these companies are major Ginning and Weaving public enterprises. It should be noted that the successful (high strength) public enterprises of ginning and weaving could do better if they are not forced to sell popular fabrics at very low prices. However, it is not suggested that this can be done overnight, because of the low income structure and the social problems which may occur if the Egyptian government lifted controls of popular fabric prices immediately. But, since this should occur at a future time, it is suggested that the policy makers plan gradual lifting of popular fabrics' price control by increasing productivity and lowering costs.

If the strength of the public enterprise in position 6 has been consistently stagnant and or declining, the viable option is to go into joint venture with domestic or international investors. If these enterprises are kept as 100 percent state owned, they are likely to be burdens on the economy. Private investors and, particularly, foreign investors will be able to help finance equipment and machinery, raise productivity and increase the ability of the public enterprise to export its products. Examples of this type of enterprise are the balance of the ginning and weaving public enterprises (particularly those companies which produce synthetic fabrics) and state owned hotels. The latter (hotels) may be considered for 100 percent privatization.[34]

For the public enterprises which fall in position 7 (low strength and high attractiveness) it is not to the best interest of the Egyptian economy to keep such enterprises totally "public," since the share of the market is usually low and or the productive capacity of the enterprise is not sufficient for the market. In turn, this low strength eats up a major part of the hard currency pot and, in order to satisfy the needs of the market, large scale imports have been permitted, aggravating the hard currency needs. Meanwhile, the cost of production and marketing in this category (position 7) is usually higher than the selling price of the products and services rendered by them. Therefore, excepting for public corporations which are consistently increasing their share of the market, public enterprises in this category should be offered for joint ventures with foreign investors. There is a high probability that these enterprises will be attractive to such investors because they are in attractive industries and are likely to increase their strength, with the appropriate management techniques and appropriate technology, combined with foreign financing. Examples of the public enterprises in position 7 are the steel public enterprise, the below average cement public enterprises such as Assyut Cement Company, and El-Nasr Automobile Company,[35] which will have the opportunity to expand into buses and trucks as well as other vehicles. These companies will be able to find foreign sources of finance and better technologies through joint ventures. Joint ventures in steel and automobiles are recommended in order to improve the technology used and the quality of both steel and automobiles. Besides, joint ventures with an advanced country like Japan will reduce the need for importing spare parts for automobiles, since many parts for almost all makes of cars could be produced locally. It also will be possible to produce buses, long haul trucks, and other vehicles as import substitutes. In the future Egypt may be able to export such vehicles.

Since cement is a basic building material and since Egypt experiences extreme housing shortages, it is worthwhile to consider, along with the joint ventures, the encouragement of totally privately owned corporations in order to enhance competition and to increase cement production in the country.

It is worth mentioning that companies in position 7 include the entry of those which are totally privately owned and are in growth industries. Usually they start with low strength, until they establish a niche in the market. There are many growth ventures which can be established with the collaboration of foreign and domestic private investors. Examples are corporations in the areas of chemicals, machine tools, electronics, computers, and building materials.[36]

For public enterprises in position 8 (medium strength and high attractiveness) there are at least two options, depending on the direction of the strength of the enterprise. If the strength of the company, despite repeated efforts to upgrade it, is declining in market share, profitability, and productivity, joint venture is the viable option. Usually the threat to strength comes from factors such as capacity, technology, excess labor, and high costs of production as well as marketing. Joint ventures will help the company to increase capacity if needed, to import technology if backward, and to streamline the human resources according to the needs of the enterprise. Examples of this type of public enterprise are the older fertilizers public enterprises and the Maritime Transport Corporation.

If the strength of the public enterprise is stable or increasing, the second option for firms in position 8 is to selectively expand the goods and services which are experiencing growth. However, the expansion should be done with extreme care in order not to over expand, given the criteria of strength such as profitability, risk, and expected market demand. Examples of this type of public enterprises are the newer high tech fertilizer corporations, and plastics corporations. It is worth mentioning that over expansion in fertilizers beyond the local markets and the existing export markets may lead to over capacity with the concomitant result of higher fixed costs and storage problems. International competition in the fertilizers industry in the Middle East is very keen since most countries of the region do have excess capacity. Thus Morocco, Algeria, Syria, Jordan, Saudi Arabia, and Kuwait are producers. The latter two countries gear all their production for export because their agricultural sector is too small. For the plastics corporations it is better to expand in areas of fiber glass, and in reinforced plastics, which are widely used by the automobile and appliance industries.[37]

For public enterprises which fall in position 9 (high strength and high attractiveness), the appropriate strategy is to keep them as public enterprises and at the same time maintain their superior position by continuous monitoring for business opportunities and for trouble spots. These public enterprises are the backbone of state owned corporations in Egypt and therefore it is of utmost importance to monitor them closely. Examples of public enterprises of this type are the Suez Canal, petrochemical enterprises, and the petroleum public enterprises; excluding domestic wholesaling and retailing of oil products. The latter two activities are costly to the oil enterprises and it is worthwhile to give domestic wholesaling and retailing of oil to private investors.

PART IV: CONCLUSIONS

In conclusion, it is of utmost urgency that the policymakers in Egypt start studying each public corporation along the above or similar lines to assess its strengths and weaknesses. Once this assessment is made they can decide which enterprises should remain public and which should become private corporations or joint ventures and establish appropriate time frames for such moves.

Even for the public enterprises which are to be kept "public," a reorganization of the strategies of such corporations is suggested. The domain, thrust, differential advantages, and target results of each unit have to be reviewed. Necessary revisions in these four strategic areas should be made. The revision may include removing many of the inflexibilities outlined in Part II of this paper.

The continuous losses in many public enterprises are an outright depreciation of the economic resources of Egypt. In turn, these continuous losses also are compounding social programs. Creative new investment avenues for the private sector, particularly for small business through privatization of many of the losing public enterprises, may cause some imbalances in employment at the initial stage, but the growth of business will create more job opportunities in the long run. Thus, applying the functional approach, which means leaving to government what it can do best and leaving to business what it can do best, will help the Egyptian policymakers to improve the socio-economic situation of the country.

Long-range strategies are the appropriate solutions for the problems of the public enterprises in Egypt. Short-run tactical solutions such as reducing prices below cost to help the poor and over employment in public enterprises to solve unemployment problem has complicated the socio-economic situation in the country. What Egypt needs is a new direction of the economy based on scientific inquiries and bold decisions for the long-run regardless of the short-run tactical imbalance. However, gradual changes may be necessary to reduce the probability of resentment of various social groups, such as labor, and socialist parties.

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APPENDIX

This appendix is to show the method by which the sample of "public enterprises" in Egypt was positioned in the Borg-Warner Matrix.

Assyut Cement "Public Enterprise"
Company Strength

Factors	Weights		Ratings (1 through 4)		Index
Market Share	.25	X	2	=	.50
Market Growth Rate	.20	X	1	=	.20
Profitability	.35	X	1	=	.35
Productivity	.20	X	2	=	.40
	1.00				1.45

Industry Attractiveness

Factors	Weights		Ratings (1 through 4)		Index
Overall Market Size	.30	X	4	=	1.20
Growth Rate	.20	X	3	=	.40
Technological Requirement	.20	X	2	=	.40
Importance to the Economy	.20	X	4	=	.80
Environmental Impact	.10	X	2	=	.20
					3.20

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1. See page 15 above for the positions of the company.
2. Ratings are based on published data about the firm and the industry in the last three years.
3. Point 1 or 2 denotes that the factor has negative impact on the firm and or industry.
   Point 3 or 4 denotes that the factor has positive impact on the firm and or industry.
   For example R.O.I. of Assyut Cement Company was very low or negative in the last three years.

<u>Borg-Warner Model Application</u>

Assyut Cement Public Enterprise in Egypt

Y4			
High	**Position 7** **x = 1.4** **y = 3.2** **Assyut Cement Corp.**	**Position 8**	**Position 9**
3			
Medium	**Position 4**	**Position 5**	**Position 6**
2			
Low	**Position 1**	**Position 2**	**Position 3**
1			
	Low	**Medium**	**High**

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