

# THE IMPACT OF PRIVATIZATION ON PATTERNS OF HUMAN RESOURCE PERFORMANCES IN IRANIAN PUBLIC ENTREPRISES

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**Abstract.** This article examines the impacts of privatization on patterns of human resource performances and the role of the State in Public Enterprises. Following a review of the theoretical literature our empirical analysis suggests that the results of privatization and outsourcing on the public enterprises have been considerably more complex and nuanced than might have been expected. In particular we find that privatization and outsourcing have been associated with increasing complexity and instability in patterns of manpower's performance in public sector. This research is an analysis of the effect of privatization and outsourcing on the public employees as well as the creation of job insecurity and threat because of privatization and outsourcing. They are risk factors for negative self-rated performance in which job insecurity represents also a risk factor for self-rated health. At the same time, it is important to mention that the Iranian government even after privatization, still far from withdrawing to the regulatory sidelines, has continued to play an active role both as a lender and as an important indirect investor in Public Enterprises.

**Keywords:** Human Resource Management, Public Sector, Public Employees, Performance, Privatization, Outsourcing.

## 1. Introduction

The Public Enterprise is the most strongly image of the Iranian society in which government was related to the public benefit. The settlements of account for all are under the control of the Financial Court of Iranian Parliament and the public enterprise has the biggest business scale which handles the public utility. The kinds of public enterprises show differences in the degrees of the regulation by government and the degrees of the independence about management for each enterprise having special status. Government of Iran is financing totally and covers the public enterprise and its budget. It is a fact that when the government has a serious financial problem, it attends to transfer and sell those to private or public-private sector and earn money for its expenditures. There is a strong belief among the Iranian economic experts that the public sector of Iran is the main source for most of problems in the economy of Iran including even the hectic development policy of privatization and outsourcing without taking into the consideration the associated problems related to the complexity and instability in the patterns of human resource management on the public employees.

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In this paper, we set out a model to the relationship between the extent of privatization and outsourcing and the size of the public employees in government in Iran, in order to investigate the hypothesis that privatization and outsourcing have a negative impact on public employees' performance. We begin by discussing several important principals for privatization and their implications and the size of the public workforce. Second, we study the literature on the relationship between privatization and public employees and its performance. In the third section, we discuss further about our model, the data and methods used for this paper. We then present the results of our analysis. The paper concludes by offering some suggestions for future research in this area.

## **2. Materials and Methods**

Evaluating the impact of privatization and outsourcing on the Human Resource Performances of public employees are not an effortless assignment. There is no comprehensive database with information on the impact of manpower's performance pre- and post-privatization and outsourcing. As a result, we had of alternative to surveys and questionnaires to obtain information, with all the problems of non-response, self-selection and non-randomness that can require. Finding comparable pre- and post-privatization and outsourcing data are difficult, particularly when companies are privatized through direct transfer to another semi-public or private-public institution which is a new form of privatization in Iran today. But even if comprehensive and comparable firm-specific data were available, it would have to be supplemented with information on macroeconomic and labor conditions that are likely to have had an impact on the condition of workforce inside of the privatized company. Concerns have recently been expressed about the sample selection in studies comparing pre- and post-privatization firm-level data on the HRP. Methodologically, we have used also two other ways in which the relation between privatized-outsourced and performance of its workforce can be evaluated. The chronological approach compares the pre- and post-privatization and outsourcing performance of public enterprises in term of HRP. This approach is usually applied to one or a small number of cases. Hence, it undergoes from the problem of selection partiality and generalizing. Another important limitation that we faced with the chronological method was difficult to find out underlying aspects of HRP in Iran. In Iranian traditional view for privatization of a large company, usually it is occurred in tandem with a general shift in economic and political policies, especially the latter. As a result, it was tricky to separate the effects of privatization and outsourcing from the impact of new policies in labor market. An alternative approach evaluates the relationship between privatization and performance of its workforces' by comparing the performances of State-owned and private firms under similar conditions. To analyze our quantitative data, we used the following performance measures which were: labor productivity, operating efficiency, output, HRP which presented the ratios used to compare the HRP before and after privatization. For all the case firms, the growth of the performance measures was annualized for both the pre- and post-privatization and outsourcing periods. The major quantitative data sources used were employment statements and reports obtained from the Iranian Ministry of Labor. So, we combined these approaches which have had also involve comparison of HRP after pre- and post-privatization and outsourcing data to a private sector benchmark.

## **3. Discussion and Results**

Comment changes is apparent and interpret is thus a fundamental feature for the consequences for the public employees. Change is often perceived by them as creating uncertainty, because the nature of change in Iran which lies irregularity about the stability in the society which carries yet the revolutionary idea about the world. A change implies that what has been will not remain and that something new takes place instead. Even though some may perceive change as a challenge, an unpredictable future makes it difficult for individuals to determine whether they have the resources needed to deal with new demands that come with a change hence the social security is semi-existent and still relies on the support of family. The uncertainty associated with organizational change is associated with negative consequences for public employees, such as more stress, poorer health and more negative work-related attitudes, such as lower job satisfaction and a decreased of performance. For instance, the initial phase of an organizational change poses the greatest ambiguity and it is more adverse to performance than the change itself, and rumors of possible layoffs will

be worsen performance consequences than when a discharge is realized. How and why performance enhances is just as important as the degree of the increase in evaluating the performance of a public sector as a result of privatization and outsourcing.

\*Table 1: R&D expenditures and labor productivity (Million \*\*Rials per person)

| <b>R&amp;D status in firms</b> | <b>Average of labor productivity</b> |
|--------------------------------|--------------------------------------|
| Firms with R&D expenses        | 442.89                               |
| Firms without R&D expenses     | 396.74                               |

Table 2: Ownership status and labor productivity (Million Rials per person)

| <b>Ownership status in firms</b> | <b>Average of labor productivity</b> |
|----------------------------------|--------------------------------------|
| Privet firms                     | 423.61                               |
| Government Firms                 | 442.89                               |

Table 3: Export status and labor productivity (Million Rials per person)

| <b>Export status in firms</b> | <b>Average of labor productivity</b> |
|-------------------------------|--------------------------------------|
| Non exporter firms            | 398.14                               |
| Exporter firms                | 449.89                               |

\*Report dated 15.01.2011- Ministry of Labor and Social Affairs of Islamic Republic of Iran.

\*\*Each Dollar = 10,580 Rials.

The methods explained above that we used to measuring performance are to divide output by the size of inputs to find the sum of output produced by each unit of inputs. Work performance in public enterprises, therefore, distinct as the amount of output, or value added as a better measure, produced by the labor input. In a thin context, labor input may be measured as the number of employees or worked hours spend in public enterprise activities. Labor performance, then, is determined by both output and labor input: an increase in output will increase performance, but increase in employment will have decreasing effect on performance which happened to most of the public enterprises through a combination of contracted firms to the public enterprises to do the hiring like the employment agencies in developed countries. We studied the sources of performance change by decomposing performance increase into organizational changes which is not only responded to regulatory needs; instead public enterprises have deliberately exploited new regulations in order to escape 'expensive' public-sector employment under the pretext of helping the government policy of reducing spending plan. In fact, restructuring was to a large scope motivated by the exploration for lower labor costs. The introduction of privatization and outsourcing within Iran public sector created a way to neutralize also political interference into the public employees as well. The belief is that private ownership will initiate more efficient controls and use procedures of the capital market to modify the deficiencies of the state-governed economy in Iran. Also, government apparatchiks have made a more practical case for privatization as an approach that offers public managers better elasticity in the management of HRP for the delivery of public services. Public employment law in Iran has been identified for longtime as factors that supply to higher salary and benefits and more personnel restrictions that makes unable the public managers to bring better changes in public services. For example, they stated that it is more difficult to hire, discipline, and fire public employees than private employees because of a range of civil service rules and constrictions.

On top of this, they believed that privatization creates opportunities for hiring more temporary employees, especially those with specialized knowledge and skills, without enlarging the public workforce. Hiring more transitory employees also lets public managers to contribute more time to preparation and strategic management actions. In so doing, this perception views public employment as a limitation on public managers that can be prevail over by hiring less full-time public employees and more private contractor and temporary employees. Nevertheless, because of the fact that in Iran the perception of capitalism has interrupted its historical basis after Iranian revolution of 1979, government responded differently to the sudden introduction of privatization programs by frenzied policies in which government is still occupying a significant role even after the privatization or outsourcing. These elements shape the business strategies adopted by the investors, and undermined the effectiveness of the instruments of capitalist mode of production such specifically in HRP. Iran's political and institutional situation affects economic performance and has a significant influence on politics obstructs post-privatization and outsourcing regulation and competition. On the other hand also from creating independent subsidiaries, companies have also outsourced service functions to external contractors who can provide the service cheaper than the company could do with its own staff. However, these independent subsidiaries have created frictions within a previously rather homogeneous public-sector workforce and significantly increased administrative work (contracting, tax policies, documentation, reporting etc.). Insofar as these factors act as constraints on the adoption of privatization and outsourcing as safeguards against laying off public employees, we expect an increase in the number of barriers to privatization to be positively correlated with both full-time and transitory employees employment. In general, we discovered that contracting with the independent subsidiaries precipitated a change in the composition of the employees from full-time civil service employees to more transitory employees. By delegating a program with a large and unmanageable payroll and replacing it with a contractual arrangement and less expensive transitory employees. Hence, public managers still believed reduce labor costs, avoid the perceived intractability and strictness of civil service rules, and gain flexibility in the use of human resources. In short, the evidence suggests that contracting out allows public managers to concurrently follow the challenging administrative values of efficiency and flexibility. On the other hand, the fact that is presented on the employment effects of privatization and outsourcing in Iran does not appear to corroborate a noteworthy decrease in employment levels as a result of privatization and on the bottom line the costs. Case studies show that employment levels in the privatized or outsourced public enterprises have either been preserved or even enlarged. In many cases, this has led to low performances and excessive labor costs, both of which contribute to inefficiencies and financial losses which make government to continue to take part in an indirect active role both in financial and managerial aspect of public enterprises.

#### **4. Conclusion**

We provide some early thoughts but willingly acknowledge that our paper and data limit our ability to offer more definitive answers to this question. Future empirical research is also needed to differentiate the effect of privatization and outsourcing on HRP in Iran. Hence, impact review of privatization on public enterprises should be included of the strategic planning practices that direct the privatization. Following the privatization program in Iran, the main aim of the impact review is to establish how well the regulatory structure has been able to establish a competitive background and whether the expected social impact and the provision made, are sufficient. The privatization is a long-term course of action. Definitely, all stakeholders need to be involved in an impact assessment, as attempting to restructure without adequate political support from government, labor unions and employees, and the general public is unlikely to succeed, and may result in civil unrest and it is difficult to draw general conclusions about the impact of privatization on HRP in Iran in the absence of an adequate number of rigorous studies for the future privatization of public enterprises.

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