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«MASTER IN BUSINESS ADMINISTRATION»

MASTER THESIS

Privatization in Telecommunications in Cyprus: Comparing with UK, Germany Belgium

ANDRIANI KYLILI

SUPERVISOR
DR ANDREAS ASSIOTIS

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Summary

This master thesis aims to explore the privatization as an option for the national telecommunication provider in Cyprus, Cyta, and make recommendations on the strategy that must be followed in order for the organization to be transformed into a strong and profitable institution. In particular it examines a) the general theoretical framework of privatization policy b) the transformation process of the national telecommunication providers in UK, Germany and Belgium and c) the telecommunication sector in Cyprus and the presence of Cyta in it.

For the purposes of the thesis, data were collected from the existing literature, from Cyta's and OCECPR's annual reports and statistical bulletins, from the Press and from my personal experience as employee in the examined organization. Then a SWOT analysis is conducted in order to define the internal and external environment which is crucial for the decision to privatize or not, the organization.

The results of the thesis indicate that privatization is a promising option for the future of the organization, since it will free the organization from the constraints, economic and other, of the public and broad public sector. Private shareholding seems necessary to ensure the survival and the soundness of the organization.

Περίληψη

Η παρούσα μεταπτυχιακή διατριβή έχει σκοπό να εξετάσει την επιλογή ιδιωτικοποίησης του εθνικού παρόχου τηλεπικοινωνιών στην Κύπρου Cyta και να προχωρήσει σε προτάσεις σχετικά με τη στρατηγική που πρέπει να ακολουθήσει η εταιρεία για να εξελιχθεί σε ένα εύρωστο κερδοφόρο οργανισμό. Ειδικότερα η διατριβή μελετά α) το γενικό θεωρητικό πλαίσιο της ιδιωτικοποίησης ως πολιτική β) την πορεία μεταμόρφωσης των εθνικών παρόχων στην Αγγλία, τη Γερμανία και το Βέλγιο και γ) τον τομέα των τηλεπικοινωνιών στην Κύπρο και την παρουσία της Cyta σε αυτό.

Για τις ανάγκες της εργασίας συνελέγησαν στοιχεία από την υπάρχουσα βιβλιογραφία, από τις ετήσιες εκθέσεις και τα στατιστικά δελτία της Cyta και του ΓΕΡΗΕΤ, από τον Τύπο και από την προσωπική μου εμπειρία ως υπάλληλος στη Cyta. Στη συνέχεια πραγματοποιήθηκε ανάλυση SWOT για να αναλυθεί το εσωτερικό και εξωτερικό περιβάλλον της Cyta το οποίο διαδραματίζει σημαντικό ρόλο στην απόφαση ιδιωτικοποίησης ή όχι του οργανισμού.

Τα αποτελέσματα της διατριβής καταδεικνύουν ότι η ιδιωτικοποίηση αποτελεί μια ευοίωνη επιλογή για το μέλλον του οργανισμού, εφόσον θα τον απελευθερώσει από τους περιορισμούς, οικονομικούς και άλλους, του δημόσιου και ευρύτερου δημόσιου τομέα. Η εισαγωγή ιδιωτών μετόχων στον οργανισμό κρίνεται απαραίτητη για να διασφαλιστεί η επιβίωση και η ευρωστία της Cyta.

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Introduction

In April 2013 the Cypriot Authorities agreed to a 3-year Economic Adjustment Program (2013-2016) with the European Central Bank (ECB) and the International Monetary Fund (IMF). The Memorandum of Understanding includes among other structural reforms, the implementation of a privatization program for the state-owned enterprises and semi-governmental organizations, including inter alia, the Cyprus Telecommunications Authority (Cyta), the Electricity Authority of Cyprus (EAC) and the Cyprus Ports Authority (CPA). Cypriot government committed to finalizing Cyta's and CPA's privatization by the middle of 2016. Thus, privatization is now a widely debated issue in Cyprus.

In this frame, this thesis examines the concept of privatization of Cyta in Cyprus. Firstly, we investigate the process of privatization that followed in other countries within the EU, examining successful privatizations of state-owned companies. Continuing, an analysis of Cyta within the telecommunication industry in Cyprus is conducted. The strengths and weaknesses of the company are revealed in order to gain a full view of the organization. Propose of this procedure is to gain a clear view of what strategy is considered successful, economically and socially, regarding privatizations.

Literature is full of studies regarding privatizations. There are studies regarding the controversy of privatizations, the political frame in which privatizations take place, the consequences on economy, competition, labor etc. Moreover, a lot of studies examine the privatization process of specific companies, and the degree of their success. In the existing bibliography there are also a lot of comparative studies analyzing the strategies followed by governments in different countries, for different industries. The literature for the privatization in Cyprus is poor, since privatization was, until recently, a term indifferent to the Cypriot society.

This thesis is intended to determine the factors that Cypriot authorities must take into account to determine the strategy that must be followed, privatization or not, and to make recommendations in order to transform Cyta from a bureaucratic state-owned organization into a profitable enterprise. Firstly, the reader gains an overview of the theoretical framework of privatization. Continuing, we examine the privatizations of telecommunication companies in UK, Germany and Belgium, followed by an analysis of Cyprus telecommunication incumbent.

Considering the theoretical framework of privatization, as well as, the impact of privatizations in Europe, we came to the conclusion that there is no standard outcome or single right approach. A privatization can be successful or not, depending on the case. The competitive and regulatory environment sometimes is more important than the ownership per se.

In the case of Cyprus, we consider the extreme rejection of privatization gratuitous and the fears of employees exaggerate. What is, therefore, important for the Cypriot government is to work out carefully a privatization plan for Cyta, as well as the regulatory and legal frame in which the newly private company will operate, in order to avoid the creation of a monopolistic enterprise, such in the case of UK, which will be harmful for the Cypriot consumers. The privatization will be beneficial for the organization itself and Cypriot society in general. The change of ownership will free the management from budgetary and political constraints and will allow Cyta to be further developed and offer better quality products and services to consumers. It will also yield significant revenues for the government not only through the sale of a stake of the organization but through the taxation of the future expanded activities of the organization.

The restrictions found on the research related the theoretical part of the thesis, are mainly due to the poor literature regarding the social consequences of privatizations. The researchers involved with privatization are mostly economists, who are concerned with the economic impact of privatizations. Sociological studies are rear. Moreover, studies regarding the privatizations in Cyprus are limited, due to the fact that privatization was never a real option for Cypriot governments, until recently. Regarding the examination of telecommunication privatization in UK, Germany and Belgium, the collection of data regarding internal organizational reforms of the companies was difficult due to the poor literature.

The main research question is answered by collecting data from the existing literature, from Cyta's and OCECPR's annual reports and statistical bulletins, from the Press and from my personal experience as employee in the examined organization. Specifically, we study the process of privatisation in other countries within the EU. Then we proceed to an analysis of the political framework regarding privatisation in Cyprus and we continue with the analysis of the incumbent provider in the telecommunication industry, Cyta. A SWOT analysis of Cyta is conducted in order to define the main strengths, weaknesses, opportunities and threats that must be taken into account before reaching a decision.

The first chapter of this master thesis includes a review of the related literature and studies regarding privatization, including the theoretical background of privatization and as well as case studies and comparative analyses.

The second chapter of the thesis includes the theoretical treatment of privatisation. We define the term privatization and we provide a brief history of privatization in Europe. Continuing, we explain the rationale of European governments to sell their national enterprises and we discuss the arguments in favor and concerns regarding privatization, based on the existing theory and impact as observed in European countries. Lastly, the main methods of privatization are identified.

The third chapter follows the route of the telecommunication incumbents from being monopolies to business and customer-oriented organizations, operating in an open market. Emphasis is given to governments' objectives regarding privatization, the political frame and process towards corporatization and privatization, regulation and the internal organizational change of the companies.

The fourth chapter has been dedicated to the case of Cyprus. The chapter begins describing the liberalization and regulative process in the telecommunication sector. It defines the context in which privatization appeared as an option in Cyprus and the political perceptions towards this policy. It continues with a presentation of Cyta regarding its corporate governance, its position in the market and other important internal organizational factors. A SWOT analysis is following.

Having presented the European privatization experience and analyzed the Cyprus telecommunication incumbent we finally attempt a comparison of the policy followed in the examined European countries with the case of Cyta. This fifth chapter also includes our position regarding privatization in Cyprus and includes some recommendations that can be adopted.

Chapter 1

Review of related Literature and Studies

Over the last four decades, when the major privatization activity started from UK, economic and political science has extensively studied the privatization policy. Parker and Saal (2003) in their work 'International Handbook on Privatization' provide a comprehensive and detailed study about privatization. Their work considers all the aspects of privatisation. The handbook includes the theory and analyzes the privatisation experiences in transition, developed and developing economies, as well as, the economic regulation of privatized industries.

A detailed report regarding the key issue of privatisation is conducted from the Organisation for Economic Co-operation and Development (OECD) in 2003, which aims to support the governments' future efforts in privatizating their state-owned enterprises. This report provides the reader with insights from OECD countries. It gives focus to the drivers and objectives of privatisation programmes, the structure and impact of privatisation. Moreover, this study also emphasizes to methods, techniques and managing issues of the privatisation programmes and it can overall be seen as an advisory study to government policymakers who are working out a privatisation program. In the same context, Megginson and Netter (2001) surveying the literature on privatisation, adopt the perspective of an advisor to a government that is trying to implement a privatization program. After a brief history of privatization programs, they are concerned in detail with the theoretical and empirical frame of privatisations in transition, developed and developing countries;

key drivers, alternatives of privatisation, impact, methods of implementation and performance of companies prior and post privatisation are identified.

Moreover, a great number of studies regarding privatisations are concerned with the theory and empirical evidence of privatisations. The theory deals with the controversy of privatization. Thus, many studies examine the theoretical framework and empirical cases of private and state ownership, trying to identify the best regime regarding issues of efficiency and profitability of enterprises and social welfare of consumers. For instance, Yarrow et al (1986) considers the competitive and regulatory environment as more important than the ownership per se and Schleifer (1998) believes that private ownership is the desirable regime. He suggests that all the ills coming from privatisation can be cured through government contracting and regulation. He argues that the battle between private and public ownership reflects the battle of the capitalism over communism. Megginson (2000) is clearly in favour of privatisation. On the other hand, Mohan (2001) after reviewing the theoretical considerations and empirical evidence, he concludes that privatisation is not a panacea. Contrariwise, he argues that in less developed countries where law in general is weaker, private ownership seems inferior to state ownership. Wainwright (2014) argues that privatization of public organizations had been failed and she attempts to bring out the potential of the public, by introducing ways to achieve it. Her proposals, summarized in the recreation of a benevolent political system, sound utopian to a realist.

Privatisation is not only an economic issue but a political act also. That's why scholars are concerned with this aspect too. Schmit (2014) examines the political diffusion of privatization in Europe. She argues that governments do not react independently of each other, and they follow their trade partners because they are afraid that they will fall behind in the international market. He adds that privatizations are made to establish economic alliances.

Literature can be divided by industries, although there are of course, studies beyond sectoral boundaries and countries. Wellings (2014) studies the privatisation of the

UK rail way industry and indicates the negative consequences on cost and safety. Mohammed et al (2004) examining the water privatisation in UK and France, concludes that privatisation was not the right option in the case of drinking water production. Electricity sector was studied by Eising and Jabko (2001), postal sector by Schmidt (1996) and aviation sector by O'Reilly and Sweet (1998). Parker (1998) provides a comprehensive review of privatisation activity in the EU, where one can find the different perspectives on privatisation according to the experiences of several counties within the EU. Köthenbürger et al (2006) examines the experiences of 10 European counties and he attempts to evaluate the outcomes of privatization programs.

The present thesis focuses on the telecommunication industry. This industry has been in the front of governments' privatization programs, because its privatisation of the sector is widely considered as successful. Schneider (2001) and Thatcher (2004) address the reforms in telecommunication industry. Furthermore, Hulsink (1999) combines a detailed study of privatisation of the telecommunication industry in three countries, notably Britain, Netherlands and France. Fink (2011) using a data set on telecommunications privatization in 21 OECD countries, attempts to document its argument that the spread of privatization in telecommunication industry is due to an institutional isomorphism.

This thesis analyses the privatisations in the telecommunication industry in Cyprus, and, specifically to the privatization of Cyta. Symeou (2009) analyzing the Cyprus telecommunication industry and the outcomes after the liberalization of the sector, concludes that competition in small economies is less relevant to the success liberalization. Kollatou (2014) summarizes in brief the 2014 Cyprus Privatisation Law. Eustathopoulos (2007) discussing the contribution of telecommunication and electricity industry in social, economic and territorial cohesion in Cyprus, he opposes to their privatisation. Karagiannakis, et al. (2014a) investigates how the ownership in the telecommunication and electricity industry is related to economic performance in European countries. He concludes that fully private ownership demonstrates the best performance in these two industries and he suggests that Cyprus government should continue the privatisation program, without succumbing to political and union pressures.

Chapter 2
Privatization in Theory: An overview

This chapter is intended to provide a bird's eye-view of the theoretical literature regarding privatization. The chapter is structures as follows; it begins with the definition of the concept of privatization, followed by a historical journey of privatizations in Europe. Then the rationale and the arguments of supporters and opponents are analyzed, followed by the methods of privatization.

2.1 Definition

After the implementation of the big privatization program in UK started in 1979 by the government of M. Thatcher, privatisation has spread around the globe and it is now considered as an established policy in OECD counties. Since then, the term privatization took several meanings, depending on the perspective one has regarding this process. To an economist, the term refers to an economic policy of transferring the ownership and management of a company, from public to private hands. To a member of the opposition party, privatization is likened to ‘‘selling off the family silver’’. Hence, it would be a mistake to define the term without taking into account the great range of ideas that the concept of privatization covers. In this section we will briefly review the definitions given from scholars to the key term, to be able to give a definition that will cover as much as possible all the aspects of the concept of privatization.

The Oxford English dictionary defines the term privatization as ‘‘the transfer of a business, industry, or service from public to private ownership and control’’

("Privatization" 2015). Yarrow et al (1986: 325) considers privatization as the rights' reallocation of profits of a company from the public to the private sector. He adds that this reallocation is followed by regulatory changes. Megginson (2000: 14) defines privatization as the sale of enterprises to private economic agents, while he emphasizes that the dominance of privatization policy represents the withdrawal of state control in the productive activities of a country and thus the transition from communism to democratic capitalism.

On the other hand, Starr (1988: 9), professor of sociology and public affairs at Princeton University, attempts to define the meaning of privatization as an idea and a political practice. He identifies privatization as the withdrawal of the interest of the state in society and a withdrawal from the whole to the part.

Taking all these into account, we define privatization as the process of transferring of rights of ownership and management of an enterprise, from the public sector to a private entity. This transfer entails the reduction of governmental role in economic functions of the country and the reallocation of profits of the operations of a state-owned company from the public to the private sector. Privatization is above all an act of structural reform, often pursed by very determined governments. We reject the definition of Starr, since governments can still have a key role to economic activities of a country by enforcing the legal and regulatory framework in the market.

2.2 Historical background

Throughout history, one can identify that there has been a mixture of public and private ownership in production and commerce. The history of privatization can go back to ancient times. Sobel (cited in Megginson and Netter 2001: 322) writes that in ancient Near East the mills and metal working were under public property, while trading and money lending were under private ownership. In ancient Greece land forest and mines were owned by government, while individuals and firms were in charge to work them out. In the Roman republic, the 'publicani', private individuals and companies, fulfilled all the state’s economic activities: construction, tax collection, supplying the army, etc.

As Megginson and Netter note (2001: 323), by the time of industrial revolution, the private sector was very important in the provision of public goods and services. In 1776 the great philosopher and economist Adam Smith argued in favour of privatization:

‘In every great monarchy in Europe the sale of the crown lands would produce a very large sum of money, which, if applied to the payment of the public debts, would deliver from mortgage a much greater revenue than any which those lands have ever afforded to the crown. When the crown lands had become private property, they would, in the course of a few years, become well improved and well cultivated’.

However, after the great Depression of 1929 and the devastation of the World War II, the view that the capitalism had failed to ensure a stable economic and social environment was prevailed, and the general perception was that governments should take a more active role, in both production and provision of all kinds of goods and services; government planning was viewed as necessary to rebuild economies. In UK for example, the newly elected Labour party nationalized important industries such as coal, iron and railroads (Parker and Saal 2003: 27).

The modern privatisation activity in Europe is associated with the big privatization program started from UK in 1979, after the election of a conservative party. However, privatization in Europe started a few years earlier in Germany. In 1961 the German government sold a large stake of Volksvagen in a public share offering (Megginson and Netter 2001: 323).

As mentioned before, the major activity in Europe started under the governance of Mrs M. Thatcher in UK. After the successful privatisation of British telecom in 1984, other public utilities were privatized rapidly. By 1997, the government revenues from the sales of the public organization reached the 65 billion GBP and reduce the GDP of public enterprises to 2% (Parker 1998: 12).

Since then, the privatization activity has rapidly spread in Europe, especially during the 1990s. In the late 1980s France privatized 14 large companies and in 1993 another 21 companies have been slated from privatization. Among these were Renault, the insurance organization UAP and Rhone Poulenc. The proceeds from the sale of France Telecom in October 1997 and November 1998 were £17.6 billion.

In Italy the privatization program began in 1992. The first important privatization was conducted in 1993 with the sale of 67% of the shares of the bank Credito Italiano. In Portugal after the election of centre-right Social Democrat party, the government launched in 1990 the privatization program, which is considered one of the most extensive privatization programs in the world (Parker 1998: 13). In Spain, the sale of the nationalized companies started in 1984. Shares of SKF Espanola (tire manufacturer), Endesa (electricity enterprise), Telefónica (Telecommunication Company), Argentaria (banking group) were sold (Parker and Saal 2003: 107).

As mentioned earlier, West Germany privatized some state-owned companies in the early 1960s. After that the sale of other public companies were prohibited. In 1985 the denationalization program started again. Only 5 companies of the 13 targeted were privatized due to the strong oppositions of trade unions. After Germany's reunification, an intensive privatisation programme was launched again. The sale of Deutsche Telekom in 1996 was the largest in EU.

Netherlands and Sweden, also privatized their companies. Royal Dutch Airlines KLM, Koninklije PTT Nederland and NBM – Postbank Groep were some of the state-owned companies that privatized in Netherlands after 1982. In Sweden the state was highly involved in economy. By the mid-1980s the state had 70 state-owned companies and 1,400 local government enterprises (Parker 1998: 16). The privatization program started after the defeat of the social Democrats in 1991. Between 1991 -1994 the shares of 20 state-owned companies were sold. Vattenfall, one of the largest power generators in Europe, is to date a full state-owned company.

In Greece privatizations delayed due to strong political oppositions. Finally, the privatization of the Hellenic Telecommunication Organization (OTE) started in 1996 and today, the Greek state holds a stake of 10% of the company while the German Deutsche Telekom has the major 40% of the company. The privatization of the Public Power Corporation (PPC) started in 2001 through Public Offering (IPO). Today, the Greek government holds the majority of shares (51.1%) and the company is listed in Athens and London Stock Exchange Group (PPC 2013). In January 2015, the new elected government of Mr. Tsipras granted the right to the German company Fraport, to use 14 regional airports of Greece for a period of 40 years, an agreement that will generate over €10 billion to Greek government (Hellenic Republic Asset Development Fund 2015).

In Cyprus, Hermes Airports Ltd undertook the management and control of the Larnaca and Paphos International Airport for a period of 25 years. The Cypriot government will be receiving €35 million every year and 33% of the gross profits of the company. Nevertheless, the first actual privatization is still in process. According to the Memorandum of Understanding, the Cypriot authorities will proceed to the privatization of Cyta, EAC and CPA. Cypriot government committed to finalizing Cyta's privatization by the middle of 2016.

It is clear from the above brief review of privatization history in Europe that in every country there has been some privatization activity. The scale of privatization varies from country to country. However, since 1979 privatization, as policy of structural reform has been established to West.

It should be mentioned, however, that Paris remunicipalised its water services by creating the public company Eau de Paris, while Berlin decided in September 2013 to remunicipalise its water services also (Lobina and Hall, 2013: 1).

2.3 The Rationale of the privatization policy

The rationale for public ownership and government provision of goods and services can be explained by the perception prevailed after the great Depression in 1930s and the devastation of World War II, that the state must prevent another market failure. However, in 1970s the state-owned enterprises demonstrated poor performance. The UK perspective was that privatization leads to efficiency gains. Nevertheless, subsequent privatization experience in Europe has shown that governments privatize their businesses, driven by various, inter-related, economic and political factors.

Initially, as Parker (1998: 19) observes, the main motive for the UK privatization program was to improve the corporate and economic efficiency and performance of the public enterprises. As a result of the change of ownership, the newly private companies would be given new clearer goals, they would be restructured, and management and staff would be given better incentives to increase productivity and quality. The latter combined with the exposure of the privatized company to market discipline and the freedom to fail would lead management and staff to exert better performance.

Governments through privatization sought to introduce competition into monopolistic sectors such as telecommunications (OECD 2003: 23). For governments aiming to liberalize the market, privatization has served a vehicle to this direction.

Privatization is also a means to finance governments. This is one of the key objectives of almost every privatization program. Governments privatize their companies and sell their assets in order to increase their revenues. The proceeds from privatizations are used to reduce the debt, recapitalize the remaining failing state-owned companies and take advantage of the potential future tax revenues that they would arise from the improved, former public, enterprises. It must be pointed out that governments sought to meet the Maastricht criteria to join the new monetary system, used privatization proceeds to raise their revenues although the European Commission did not take into account the privatization receipts (Parker 1998: 20). France in 1997 used the revenues of the partial privatization of the telecommunication incumbent to pay its obligations toward pensions owed to company's employees. As a result, France passed the first-round admission to the European monetary Union (Megginson 2000: 20).

The recent European privatization experience reveals that governments launch privatization programs to obtain financial assistance from international bodies, namely European Commission and IMF. Privatization of state-owned organizations is recorded as a condition to the agreement between the involved parties. In this context privatization of state-owned companies reduces the public debt. The Memorandum of Understanding between the European stability mechanism (ESM) and Cyprus anticipates the raising of €1.4 billion from the privatization of Cyta, EAC and CPA (Cyprus Ministry of Finance 2013: 20). The same applies to the Memorandum of Understanding between the ESM and Hellenic Republic. The privatization program, as described in the agreement, would generate by the end of 2017, €6.4 billion for the Greek government. This amount will be used to reduce the public debt (European Commission 2015: 27).

In Italy, France and Portugal privatization programs were launched in order to deal with the budgetary problems they were facing. Privatization was a way to avoid the taxation increases and social benefits cuttings (Parker 1998: 20).

Another objective of governments' privatizing is to encourage investment. Especially, industries such as telecommunication and power supply, demand investments for maintenance, improvement of infrastructure services and research. These investments need funds which cannot be provided by the state due to fiscal constraints and budget deficits. Additionally, globalization of the market opened up new opportunities for financing projects. Hence the state-owned enterprises need to be free from the state in order to access these markets.

Equally important is the capital market development. Privatization helped through the flotation of companies to increase the stock market capitalization and promote wider ownership of economic assets. Moreover, foreign investors were attracted and hence, they put the country on the international capital map (OECD 2003: 23).

We can also identify political objectives towards privatization. Megginson and Netter (2001: 324) and Mohan (2001: 4865) mention that one of the main motives for privatization is the reduction of government involvement in the economy and promotion of private initiative. Indeed, Hulsink (1999: 114) mentions that one of the goals of the conservative government of Thatcher was to reduce the state intervention in the economy, as well as the power of trade unions. John Moore (1986: 93), parliament member of the conservative party in UK, has typically remarked "Less government is good government. This is nowhere truer than in the state industrial sector".

By the same token, Schmitt (2014: 629) examines whether the diffusion of privatization in Europe is driven by economic competition or political affinity. She argues that the motives are rather economic than political oriented. Government privatized because they need to follow the trend in economically related countries. They afraid that if they don't follow trend they will fall behind in the international market.

Likewise, Thatcher (2004) believes that governments privatize their state-owned companies to create economic alliances. Thatcher (2004: 300) notes, that France privatized its national telecommunication provider in order to set up a strategic alliance between France Télécom and Deutsche Telekom. The purpose was the international expansion of the operations of the new company.

In conclusion, there is no single causality or objective for privatization. The objectives of each privatization program launched vary across EU countries. Some governments privatized to promote efficiency and introduce competition, others to meet fiscal goals and deal with budget problems and others to attract investments and promote their national market into the international map and meet political goals. Some governments are pursued all these objectives, despite the fact that some of them are contradictory.

2.4 Arguments in favor and Concerns

Privatization has always been one of the major and most debated economic issues. It's true, however, that economists support this policy in a great extent. The arguments in favor of privatization are mainly relying to the position that the state apparatus had failed to manage effectively an enterprise. Opponents of privatizations suggest that privatization has negative effects on the welfare of society, due to the fact that private shareholders are sought to maximize their personal wealth rather than follow a social cohesion policy.

According to the public choice theory, a state-owned company is faced with the multiple and often conflicting objectives of politicians. Hence public owned companies are subject to the interference of politicians. It is an unfortunate fact that politicians seek to serve their own interest. Consequently, the objectives of state enterprises address politicians' own benefit at the expense of the efficiency of companies and Treasury and therefore at the expense of society as a whole. These objectives are often oriented towards voting acquisition. Boyko et al (1996: 310) translates this into excess labour spending.

Megginson and Netter (2001: 330) point out that even in the case of a benevolent government, whose primary objective is to act as a welfare state, welfare is a difficult thing to measure and governments' goals can be inconsistent with efficiency and maximizing social welfare.

Moreover, the objectives of state enterprises are changeable with the change of governments. This results to poorly designed goals and difficulties regarding developments and implementation of consistent, long-term business strategies. Over the years, Spain governments have been expected to pursue exports, maintain high levels of employment, improve the balance of technological trade, combat regional inequalities, and provide an example of the 'work ethos' (Delgado, cited in Parker 1998: 31).

The second argument in favor of privatization is that, even in the case where government pursues the profit maximization, it is very difficult to control the behavior of managers and provide them with incentives to achieve the goals set.

Under private ownership, the property rights are well defined and thus the job monitoring and incentive system is better designed than their equivalent in public ownership. The monitoring devices are broader and payments of managers are, often, profit related. In contrast, managers in the public sector lack monitoring and incentives because ownership is diffuse and property rights are not well defined (Mohan 2001: 4866). In addition, it is commonly known that in public sector remuneration is predetermined by the contract and salary increases is tied to fixed salary scales.

Continuing supporters of the privatization invoke the absence of the 'fear' of bankruptcy in the state-owned enterprises. Due to weak budget constraints managers of public companies fear no consequence in the form of a bankruptcy or a takeover. Managers can expect to be bailed out by public funds (Mohan 2001: 4866). A typical example can be found in the case of Cyprus Airways. The national airline of Cyprus was experiencing serious financial difficulties for years. Cyprus government delayed its closure for eight years, by granting the company several million Euros in state aid, until the European Commission decided the cessation of company operations (European Commission 2015b).

The above-mentioned arguments for the superiority of private sector document the poor performance of public enterprises. Inefficiency of state ownership is also documented by an empirical analysis conducted by Karagiannakis et al (2014b: 20). He examines how various indicators of economic performance (total factor productivity, labour productivity and real unit labour cost) are related to the regime – public and/or private- of telecommunication and electricity industries in Europe. The results suggest that the best regime, in terms of productivity and competitiveness performance is the fully private in both sectors in Europe.

Furthermore, Shleifer (1998: 8) observes that due to statutory limits of the regime of public ownership and predetermined budgetary constraints, the freedom to innovate, and develop entrepreneurial activity is weakened in a state-owned company. He asserts that only under private ownership and in the existence of competition, a firm can exert experimentation and innovation and fall behind technological and market evolution.

Regarding the welfare benefits of privatization, it is widely considered that privatization can lower prices and improves the quality of products and services. In a competitive market, firms seek to provide high quality products and services, with the minimum cost. Supporters of privatization respond to oppositions regarding the negative impact of privatization on employees, with the argument that employees are also consumers and they will also benefit from high quality services, greater competition and increased choice (Megginson 2000: 23). Equally important is the fact that the improved profitability of privatized companies will increase the tax revenues for the State. This will allow State to increase the social benefits for the vulnerable groups of population.

Opponents of privatizations suggest that state intervention in the economy is not necessarily undesirable if it pursues social welfare objectives. Parker and Saal (2003: 114) observe that in some European counties, notably UK and France, state intervention has been used to promote social welfare goals, such as control of prices and job preservation, although these goals might be incompatible with maximizing profit.

Further, privatization does not lead to immediate productive efficiency gains, since the European experience revealed that is difficult to make substantial changes in the way companies are managed and operated. Employees of France Télécom had civil status and this complicated the privatization process and restructuring of the company. French government disowned a restructuring plan because of a strike by air France staff (Parker 1998: 35).

Regarding the incentive system which is considered to be better designed under a private regime, opponents of privatization respond that managers in private sector enjoy only a small fraction of improvements in productivity, thus in neither sector managers have any important motive to increase productivity and efficiency of a company (Mohan 2001: 4866).

To the bankruptcy and weaker innovation argument, Florio (2004: 54) answers that very large private firms do not fear bankruptcy due to the existence of safety nets, established by European Union. Moreover, he endorses that most innovators or scientists have other incentives to innovate rather ownership or other economic rights and he notes that some of the most innovative private firms have been under state-own control.

Regarding the social welfare impact, privatization has not always resulted in better and cheaper services for customers. The privatization of UK railway is considered unsuccessful due to negative effects on cost and safety. Two rails crashes in 2000 and 2002, exposed flaws in the post-privatization maintenance of railway (Wellings 2014: 259). Likewise, privatization of water and sanitation system in several countries did not result in better provision of drinking and wastewater services. The private companies introduced excessive tariff increases while the water systems were deteriorated. This led the City Council of Paris to decide to not renew the contracts with the private companies Suez and Veolia and to remunicipalise water services by creating the public company Eau de Paris. As Pigeon et al (2012: 25) reports Eau de Paris lowered the water tariffs by 8% compared to 2009 and it is considered as a more efficient, consistent and sustainable organization than its private counterparts. Berlin also, decided to remunicipalise its water services in September 2013 (Lobina and Hall 2013: 1).

None can deny that privatization had a decreasing impact on prices in sectors such as telecommunications. However, a research conducted by Bacchiocchi et al (2011: 394) rejects the common position that liberalisation or privatisation is the cause of the price reduction. The price reduction, he claims, is due to the development of technology and increase in the demand of mobile services.

The main opponents of privatization are mainly the employees and the trade unions. Their opposition relies mainly on the view that the privatization leads to layoffs, deterioration of working conditions, precarious employment, and wage inequality between executives and other employees.

The truth however is that, governments guarantee the employees' rights, to the extent possible. In Netherlands for example, the wages of low paid employees have been guaranteed by the state during the first years of privatization. In UK employees who wanted to keep their civil servant status were offered alternative jobs in the public service (Parker 1998: 35).

There are also some welfare concerns regarding the benefits of privatization. As Florio (2004: 68) observes, privatization in UK, Italy and France has benefited the high-income social groups or strengthened the position of already powerful groups. This is resulted in higher economic inequality.

Equally important are the concerns regarding the universal access to services. A state-owned enterprise can be used as a welfare policy tool and ensure the universal access to services. Cyta and EAC have determined special tariff packages for the economically disadvantaged and other vulnerable groups, such as students, pensioners, large families and people with health problems. The concerns regarding privatization are focusing to the degree that government will be able to guarantee, through regulation the universal access to service.

Lastly, the opponents of privatization argue that privatization policy raise security issues. The maximization of profit, as the dominant objective of a private company has resulted in serious human accidents, where the public sector had enforced draconian safety laws. Efstathopoulos (2015: 9) recalls the air disaster of Helios in 2005 due to maintenance inefficiencies and the disaster of Spanair aircraft in 2008.

2.5 Privatization Methods

The privatization of state-owned enterprises can take place through a variety of methods depending on the objectives of the government, the company's financial position and the market's environment. The three main methods are the public share offerings in the stock market, the trade sales and the mixed sales.

The most popular privatization method is the method of share offerings. UK, Italy, Portugal and Spain privatized their companies using mainly this method (OECD 2003: 27). In this case the shares of a company are floated in the stock market and investors can originate from domestic and/or international market. This method is considered as the most transparent process of privatization and is popular among countries seeking to develop their capital market. What is more is that companies listed in stock market must comply with stringent requirements, such as the Codes of Corporate Governance. Conversely, the dispersal of shares may lead to weak governance and investors who lack the expertise and experience of a strategic investor, who will develop the company in terms such as management and technology infusion. In addition, this method lacks the contract negotiation and commitment from the new owners.

Secondly, through trade sale method, government sells an asset directly to a buyer through negotiations or auction. Usually, the strategic investor is a company with the same operations which aims to expand its services. Trade sale is a method suitable for countries that need strong management and infusion of technology. This method provides the opportunity to government to set and negotiate the post-privatization terms, such as to ensure that the objectives of privatization are met under the new ownership and smooth the negative impact of privatization related employment, protection, universal access and environmental quality. Nevertheless, the degree of transparency is lesser than share offerings and the possibility of corruption greater.

Of course there is always the possibility for government to combine the two methods. In this case, government begins the privatization by the transfer of a stake to a strategic investor. Thus, the management improvement and technology infusion are met. At a later stage the shares enter the stock market in a higher price, due to higher value of company resulting from the organizational and ownership change. It is important to point out that in all these three methods a tranche of share can preserved to company's employees to ensure their participation.

Chapter 3
The privatization of European Telecommunications

For many years the prevailed perception was that the provision of telecommunication services was an exclusive responsibility of the state. In the 1970s this perception was challenged by a combination of politico-economic-technological developments. As a result, until the end of 20^{th} century, almost all European states proceeded to structural reform in telecommunications.

This chapter provides a view on the reforms in the telecommunication sector in UK, Germany and Belgium. The analysis is focused on the key drivers that led PTT administrations (Postal, Telephone and Telegraph) to change, on the process of privatization of telecom incumbents, on the regulative bodies established and finally to the reorganization of the companies following the reform.

3.1 The first mover: British Telecom

The United Kingdom was the first country in Europe that has developed a major privatization plan of their state-owned organizations. British Telecom (BT), the incumbent telecommunication company in UK, was the first telecommunication company in Europe privatized and exposed to a very new regulatory regime.

This process took place in 1984, almost a decade before other countries adopted similar strategies. Thus, fair enough the radical privatization of BT, the subsequent regulative reform and the internal metamorphosis of the company, served as an example, to reproduce or avoid, in all European countries.

3.1.1 The drivers of change

The ideology of the winning party in the general elections of 1979 was crucial for the future of BT and other public organizations. When Thatcher came into the office found the UK dealing with a large budget deficit, rising public expenditure and high levels of inflation and unemployment (Hulsink 1999: 113). The state intervention in economy and market decision-making, the bureaucracy and the increasing power of trade unions in the business playfield, were considered by the Tories as the cause of the crisis. Reducing, therefore, the degree of state intervention in economy and leave the important decisions to market and firms was in a high priority in the agenda of the government.

The plight of the finances of the country was another attractive motivation for the government to initiate a privatization program. Privatizations would generate revenues for the government to reduce the budget deficit and taxation.

Another important reason for British government to pursue the reform of BT was to increase efficiency through competition. At the time of the electoral victory of the conservatives, there was a public discontent with the telecommunication services provision. BT was characterized as poor in innovation and outmoded in infrastructure. Large business users were complaining about the quality of the provided services, the absence of discount quantities for bulk users and generally, the overall performance of the Post Office (PO)/BT (Hulsink 1999: 132). Efficiency gains were a major argument of government.

3.1.2 Privatization and Regulation of Competition

The intention to separate the BT from the national post was announced in September 1979. Indeed, the Telecommunication Act of 1981 split the BT from the national post and transformed it into a public corporation (Thatcher 1999: 144). Right after this reform, the government decided to take things one step further and privatize BT. The original suggestion to divest the unprofitable departments of BT was withdrawn by the government due to the strong opposition of BT's management and unions to keep the organization as a single unit, and the possible reduced proceeds of the sale (Hulsink 1999: 135).

The management of BT was supportive to privatization. It wanted the freedom to enter new markets and capitals in order to modernize its network. As Hulsnik (1999: 135) mentions, it also preferred a moderately liberated and regulated business environment. This had not been the case for the unions and the Labour party. The latter was opposing to the privatization plans of the government, arguing that privatization would raise issues of social fairness, national safety and efficiency, while the unions of BT started an intense campaign in 1982-3, the so-called Day of Action, against privatization, declaring that privatization of BT would result to negative consequences in employment levels, both inside the company and outside in the domestic supplier companies, and socially desirable -but uneconomic- services provided by BT would be threatened (Hulsink 1999: 136).

This campaign proved unsuccessful. Unions did accomplish, however, to delay the implementation of privatization legislation, which was scheduled to be passed before the end of Thatcher government. Nonetheless, the decisive electoral victory of Thatcher in June 1983 elections put an end to all oppositions. The Telecommunication Bill was passed by the parliament in December 1983.

In August 1984 BT became a public limited company and 50.2% of BT's shares were sold through IPO in November. The government retained the 49.8% of the ordinary shares as well as a golden share that authorized it to protect the company from a hostile takeover, namely to limit shareholders' holding to a maximum of 15%, ensuring the British nationality of CEO and its appointment of two directors to the board (Goldstein 2000: 200).

The flotation continued in 1991 and 1993 with the sale of another 28.4% and 21.8% of the shares respectively. The golden share was abandoned in 1997 to facilitate the merge with the US MCI company (Marino 2007: 117).

UK was also the first country in Europe that developed a regulative body for competition in the telecommunication industry. Already from 1982 when the decision to privatize BT was announced and Mercury Communication Ltd had granted a license as a telecoms provider, a new regulative regime in the telecommunication sector became a necessity. Indeed the first independent regulator was established in 1984. The office of Telecommunications (Oftel) which was headed by the Director General of Telecommunication (DGT) was authorized to monitor the operation of the privatized BT. Its main responsibility was to promote the interest of consumers regarding to price, quality and variety, efficiency and effective competition (Hulsink 1999: 163). However, the market had no real competition until 1991. Until then, the market was dominated by the duopoly of BT and Mercury. Mercury managed to gain only 5-6% of the telephony market, although in the international call market it was more successful (Börsch 2004: 600). The market was actually liberalized in 1991 when 60 new telecommunication companies were granted, such as Energis communications and AT&T. Competition let prices fall significantly, and average telephone fees were reduced by more than 50 per cent (Börsch 2004: 601).

3.1.3 Organizational Developments

After the introduction of competition in the telecommunication market, its corporatization in 1982 and its privatization two years later, BT went through a series of significant organizational changes in order to deal with the challenges of the new business environment, in which it was now exposed. BT became, after its privatization a customer-oriented company, leaving behind its public bureaucratic and technology-driven character.

A decentralized divisional structure replaced the old centralized functional form of BT and moved the company to new geographical markets and consequently to various customer groups. The first organizational change took place in 1982 when BT divided into four divisions: BT Inland, BT international, BT enterprises and Development and Procurement Department headed by the British Telecom Board. In 1983 BT Inland was divided again in two business units: the National Networks (NN) which was responsible for the network and special services of business customers, and the Local Communications Service (LCS) which was in charge for the operation of the local network for residential customers (Hulsink 1999: 152).

In 1984 BT proceeded to further restructuring. The ten regions and sixty-one areas were replaced by five territorial directorates and thirty-one districts. The old telephony areas were replaced by twenty-seven geographical districts, running as local profit centers, managed with more autonomy and increased authority in decision-making (Morley 1986: 128).

In 1991 'Project Sovereign' was launched; a major restructuring project designed to serve BT's vision 'to become the most successful worldwide telecommunications group' (Pospischil 1993: 607). On April 2 British Telecom was re-launched as BT, with a new identity and a new organizational structure. The divisional structure was replaced by two business units. The first would deal with large businesses and multinational companies and the second with residential customers and small business companies. In addition to that, a third department was established in order to handle special services such as mobile communications, yellow pages, operator and broadcast services (Pospischil 1993: 607). Furthermore, under this project Sales and Marketing were separated from the production, creating the Worldwide Network department. Personal Communication and Business Communication divisions of this department were dealing with the management of domestic and international network.

Regarding BT's new customer orientation, BT had already from 1989 launched the Customer Service Guarantee Scheme which was the ancestor of 'BT commitment' of 1991. 'BT commitment' introduced a set of service standards, towards private customers, providing guarantee and compensation schemes for poor service and missed goals. International customers were treated by the newly established subsidiary Syncordia (Marino 2007: 120).

It should be noted, that all these developments would not be successful without cultivating a culture within the personnel that moved them away from the conformity and security of a state-owned company. This was succeeded both with communication and training programs and by encouraging employees to own shares and take part in other profit-sharing schemes (Martin and Parker 1997: 150).

The turn of the century found BT changing again its structure. Four international businesses units created: BT wireless (British and international mobile service), BT Ignite (broadband), BT Openworld (Internet service providers) and Yell (Yellow pages, e-commerce business and international directories). Fixed telephony business was also split into Retail and Wholesale (BT 2016b). These measures were not enough to increase the share price. As a consequence, BT demerged its mobile division, which was listed to the stock market as mm02 (Börsch 2004: 606).

In 2005 the fierce competition in telecommunications in Europe led to the restructuring of BT businesses. The new lines of BT Group plc, BT Retail, BT Wholesale, BT Global Services and BT Openworld were created in order for each group using its specialized knowledge, to focus on its own market segments (Marino 2007: 124).

Regarding the employment policy, most employees before privatization, had civil status. Thus, after the privatization of the company, employees who wanted to keep their public servant status, they were offered alternative jobs in the public service. Also, BT committed to pay two years' salary per person leaving. This means cost to the company £2.4 billion. Employment was reduced to 50% from 1981 until 2001 without compulsory redundancies. This cut off was mainly due to the modernization and digitalization of network and not due to privatization per se, since the sharpest decrease took place between 1991 and 1998 and not right after privatization (Börsch 2004, 605).

Continuing, because of its early privatization BT had more time to internationalize. The expansion of BT's activities started in the beginning of the 1990s with the acquisition of small stakes in US firms. Since 1993 BT created alliances with telecommunication companies across Europe, among them companies in Netherlands, France, Germany, Sweden and Spain. A notable move was the acquisition of 20% of the US MCI, the second larger telecommunication company on US, and together they set up the alliance Concert. Concert was ended in 1997 when Worldcom merged with MCI. BT then reconfigured Concert with AT&T, which was dissolved in 2001. Today BT is active in over 200 countries across five continents (Hulsink 1999: 157· Marino 2007: 121).

3.1.4 Summary and Concluding Remarks

British Telecom was the first European stated-owed organization to be corporatized in 1982 and privatized in 1984. Due to the early corporatization and privatization and its importance to the European telecommunication industry, BT became a flagship for the privatization of its European counterparts. BT's experience is also among the most academic attractive cases, mainly due to the early timing of liberalization and regulatory change in the telecommunication sector.

The driving forces of reform were basically political and economic. The arguments of the government included increasing efficiency and productivity, reducing the degree of state intervention in economy, weakening of unions and relieving budgetary pressure. Thatcher's government overcoming the oppositions from the Labour party and trade unions, proceed drastically to its privatization plan. British were also the first in Europe that created an autonomous agency, Oftel, to supervise the telecommunication industry. His role however to promote competition was not considered as successful because of the late liberalization of the market.

This is the reason that privatization of BT is seen as an example of how *not* to privatized a public enterprise. It basically replaced publicly owned monopoly with a privately one since competition was absent at the time of privatization.

Concluding, efficiency and improved service goals had been accomplished. The complete privatization of British Telecom resulted to significant internal restructures and expansion of its activities worldwide. We should consider, therefore, privatization as the foundation stone upon which BT built its capability to survive in the fast-changing environment of communication industry.

3.2 The emergence of a giant: Deutsche Telekom

In this section we analyze the evolution of Deutsche Telekom from a state monopolistic company into one of the largest telecommunication services provider worldwide. We attempt to show how the privatization of Deutsche Telekom, worked as the milestone to the creation of a globally positioned company. The subsequent incremental restructuring, through several re-organizational projects is part of an on-going development.

3.2.1 The drivers of change

The key factors to privatize Deutsche Telekom have arisen from a combination of political, economic and globalization considerations. To begin with, already from 1980s German neo-liberals started to press for privatization, following the example of UK and US. This position was, in part, a result of the influence of European Commission to liberalize the European telecommunication market (Esser 1998: 112).

Furthermore, right after the reunification of Germany in 1990, the possibility of privatization became more attractive to government. The integration of East German territories in general and the need to modernize and upgrade the East German network specifically, created new financial challenges for the government. The need for further budgetary revenues was inevitable.

Another crucial key factor for privatizing Deutsche Telekom was that privatization was seen by the government and Deutsche Telekom itself as necessary for the company to expand its activities internationally through strategic alliances (Esser 1998: 112· Ziegler 1997: 18).

3.2.2 Privatization and Regulation of Competition

Telecommunication services in Germany were exclusively provided by the Deutsche Bundespost (DBP), a federally-owned public organization. However, already from the 1980s large business users, who they were paying large amounts to get long distance services, were pressing for reforms. Pressures have also arisen from other domestic and foreign suppliers wanting to enter the German market and the European Commission for liberalization of the telecommunication sector.

Although Bonn government was negative, the need for reform was recognized. After two years of discussions with all the interested parties (parties in Bundestag, representatives of the unions, legal and business experts), DBP was separated in 1989 into three independent public entities: a postal company, the Post Bank and the Deutsche Bundespost Telekom. At the same time, Mannesmann AG group had granted a license to operate as mobile provider, the first real competitor of Deutsche Telekom (Heuermann et al 2007: 155).

However, this reform did not satisfy the advocates of privatization. After the reunification of Germany in 1990, privatization came again into the political stage. The opposition Social Democratic Party (SPD), the centre-left Social Democrats who were expressing fears regarding employment and public provision of services, and the Postal Union (DPG) which feared that privatization would weaken its power in Bundespost's governance, were opposing to the privatization plans of the governing Christian Democratic Union party (CDU). Finally before the elections of 1994, most of the parties including the SPD agreed to further reforms for DBP Telekom (Esser 1998: 112).

Finally in 1995 the state-owned DBP Telekom was transformed into the joint stock company 'Deutsche Telekom AG'. In November 1996, Deutsche Telekom entered the stock market and 25% of the company was sold to the public. This was the largest

IPO ever in Europe (Deutsche Telekom 2016a). Further share offerings occurred in 1998, together with the full liberalization of the market, and in 2000. Today the state holds 31% of the shares of the company.

The market was fully liberalized by the end of 1998, when 200 companies were licensed. As a consequence, prices decreased immediately and Deutsche Telekom lost over 35 per cent of its market share (Börsch 2004, 601). The new regulatory authority for telecommunication and postal services (RegTP) was set up in August 1996 and began its operation in 1st January 1998, together with the liberalization of the market. Its responsibilities lie upon licensing and frequency regulation, universal service, price regulation, network access and interconnection (OECD 2004: 14).

3.2.3 Organizational Developments

Since its privatization, Deutsche Telekom's management has developed a series of re-organization projects that completely transformed Deutsche Telekom, from a national company into a global player. The main objectives of all organizational programs have been the increased shareholder value and fast growth through improvement of sales and cost reduction, emphasis on customer, innovation, efficiency and faster processes and decision making.

From 1996 until 2002, under the governance of Dr. Sommer, Deutsche Telekom passed through several organizational improvement projects. Dr. Sommer's main objective was to introduce private sector's processes and tools. The 'PERFORM' project aimed at the preparation of the company for full competition and the creation of a customer-oriented business culture by optimizing the procedures and responsibilities (Heuermann et al 2007: 162).

In 1998 the project 'GK-, PK Direktionen' created separate departments for business and residential customers. Each department was responsible for its own products and customers. The 1999 'HQ' efficiency improvement program created a new flatter and centralized management with the establishment of central headquarters in Bonn. In the same year the 31 technical local areas were reduced to 13 in order to speed up the decision making processes, under the 'ZNI' project.

With the turn of the century, Deutsche Telekom operations centered around 4 pillars, as independent companies: T-Online, T-Mobile, T-Com and T-Systems. However Dr. Sommer's goal, to increase the shareholder value by issuing four focused rather than one central share value on the stock market, failed (Heuermann et al 2007: 163).

In 2001, Deutsche Telekom announced three more projects: 'Prisma', 'Nice' and 'ErGO'. Through 'Prisma', all HR activities were reformed and through 'Nice' a restructuring of products, network infrastructure and customer service took place. 'ErGO' aimed at cost reductions in common cost level. 'SMH' was a project of 2002 that reorganized HQ. During this program HQ staff was reduced from 56,585 to 19,366 (Heuermann et al 2007: 164).

In 2007 Deutsche Telekom announced a new customer-oriented strategy and a simplified architecture for the activities of the group in Germany. T-Home offers services for households and T-Mobile services on the move (Deutsche Telekom 2016a). Three years after, the CEO R. Obermann announced the new business strategy 'Fix-Transform-Innovate' of the company that aims to invest in intelligent systems, Internet and networks systems (Deutsche Telekom 2016a).

Regarding Deutsche Telekom's employment policy, staff reduction was necessary. Again in the German case, most of the company's employees were civil servants who could not be dismissed. After negotiations with the unions and work councils Deutsche Telekom's management conceded to no compulsory redundancies. Workforce was reduced from 230,000 people in 1994 to 170,000 on 2000 through early retirement and redundancy payments (Börsch 2004, 605).

Deutsche Telekom appeared on the global stage in the mid-1990s with an alliance with France Telecom. Both companies bought minority stakes in the US carrier Sprint and created the Global One. The unsuccessful undertaking to take over

Telecom Italia destroyed the alliance with France Telecom. In 1999 Deutsche Telekom acquired a stake in the British mobile company One2One and in 2002 T-Mobile is launched in Austria, UK and Czech Republic. In 2010 Deutsche Telekom and France Telecom through a new alliance, created a new joint company consisting of T-Mobile UK and Orange UK. DT became the only global GSM mobile company that could offer mobile telephony on the same network world-wide (Börsch 2004, 604). Today Deutsche Telekom is present in 50 countries as joint shareholder with other privatized companies, through alliances or subsidiaries (Deutsche Telekom 2016b).

3.2.4 Summary and Concluding Remarks

In this section we have attempted to demonstrate the evolution of one of the largest telecommunication companies worldwide, founded in 1995 after the privatization of the stated-owned Deutsche Bundespost Telekom. Unlike the rapid policy followed in UK, the German government managed through discussions and negotiations to obtain consensus from almost all the interested parties. This compromise policy was followed in both the decision to privatize and later in the staff reduction policy.

The privatization of the Deutsche Telekom was the result of pressures by large users, the influence of European Union and the imitation of liberalization policies employed in other countries, mainly in UK and US. Privatization was also resulted from fiscal considerations, since after the reunification of Germany in 1990 Deutsche Telekom faced huge debts as consequence to the investments for the integration of East German network. The vision of the company for international expansion was also an important factor that led to reform.

Since its privatization, Deutsche Telekom has followed a strategy of continuous development and improvement in both structure and processes of the company and the quality of products and services. The internalization policy is identified as aggressive.

Although some scholars attributed the success of Deutsche Telekom to the fact that the state is the larger shareholder and thus the company is less vulnerable to financial market pressures, the development of the company proves that its success relies on the continuous effort for improvement and growth.

3.3 The slow mover: Belgacom

Belgium was one of the last European countries that liberalized its telecommunication market and privatized its national incumbent. This is partly because of the high degree of political intervention in the telecommunication area, even after its privatization in order to ensure that telecommunications would continue to serve the common good.

This chapter considers the transformation of the former national telecommunication provider, from a dysfunctional and bureaucratic organization into an efficient company. This change was partly a result of technological developments, European policy regarding liberalization and the demand of the public for better services.

3.3.1 The drivers of change

Telecommunication services in Belgium were provided exclusively by Régie des Télégraphes et Téléphones (RTT) according to the Telecommunication Law of 1930. Privatization in 1988 seemed an option since the underperformed RTT needed a change to increase efficiency, productivity, quality of its service and thus consolidate company's problematic finances.

A few years later, in the mid-1990s European Union's policy regarding liberalization has played an important role to the motivation of government toward privatization. Belgium authorities feared that by not privatizing, at least partly, would have left Belgacom outside the European and global telecommunication scene. Additionally Belgacom required investments in capital in order to modernize its network and services and help with the expansion of company's activities in the international telecommunication market. Besides that, government wanted to raise money to deal with its budget deficit (Vanhoucke 2007: 133).

3.3.2 Privatization and Regulation of Competition

As mentioned, even before 1988 the liberal coalition partner of the government suggested the full privatization of RTT in order to terminate the dysfunctional operation of RTT. At that time privatization was on a smaller scale in Europe, so the idea of privatizing the national telecommunication provider was out of discussion for socialists.

They proceeded, however to a reform by creating an autonomous state company. Belgacom plc replaced RTT in 1991. The new agency could keep its monopolistic position on basic infrastructure and on services on the public domain. It kept its freedom to do whatever necessary to be competitive, such as create subsidies or participate in other companies (Vanhoucke 2007: 131).

The privatization of Belgacom came a few years after, when the Belgian authorities decided to liberalize network and voice market, open up the mobile phone market to competition and partially privatize Belgacom. This decision was consistent with the EU recommendations for full liberalization of the market by 1st January 1998. Thus Belgacom became a public limited company in 1994 and the government decided to sell 49.9% of its shares to a strategic investor. Flotation was not an option for Belgacom, since its poor financial situation would have resulted to lower revenues (Vanhoucke 2007: 131).

The search for the strategic investor lasted less than a year. Among the prospective buyers were the KPN Netherlands together with Swiss Telecom, the Italian STET, BT with Bell Atlantic and Ameritech in a consortium including Tele Danmark and Singapore Telecom. Finally, with the recommendations of the European Commission, Belgacom and the advisory bodies set up by the government (Ugeux Commision and Morgan Stanley Bank), it was decided to sell Belgacom's shares to the Ameritech ADSB consortium for 73.3 billion BEF. Minority investors, part of this consortium, were the Credit Communal de Belgique, Kredietbank and Sofina (Vanhoucke 2007: 135).

In 2003 Ameritech, which was merged with SBC Communications in 1998, announced its withdrawal from Belgacom, followed by the other two stakeholders. This resulted to the flotation of their shares to the stock market in March 2004 (Proximus Group 2016). Today Belgian state holds 53.51% of shares; group's own shares are 4.68% and 41.81% are in free-float.

Regulation in Belgian telecommunication sector has been established in 1991 with the creation of Belgian Institute for Postal services and Telecommunications (BIPT) as a semi-governmental department, BIPT commenced its operation in 1993. It became an autonomous regulative institute in 2003. Its activities encompass the promotion of a healthy competition and monitoring the market, ensuring of consumer interests and network security and management of scarce resources (BIPT 2012). However, despite the establishment of the BIPT in 1991, competition was introduced in mobile telephony in 1996 with the licenses to Mobistar and BASE and the market was fully liberalized by 1998.

3.3.3 Organizational Developments

The first reform of Belgacom took place right after its corporatization in 1991 with the establishment of a board of directors and CEO, who was responsible for the management and governance of the newly created company. Bessel Kok was the first CEO of Belgacom, a business man away from politics. The board however was consisted of people from the political scene: Flemish, Christian Democrats and Socialists (Vanhoucke 2007: 132).

The political intervention in every day operations and the strategic planning of the company led to a conflict between the CEO and board resulting to the resignation of both parties in 1995. Again the new board was consisted of members from political parties. The new CEO was John Goossens, again a man without any political record.

After Belgacom's partial privatization the management committee was adjusted. John Goossens remained the CEO; Ray Stewart and Denis Johnson, both from Ameritech took the position of CFO and COO (Chief Operating Officer) respectively.

In 1997 Belgacom launched the 'PTS' plan (People, Team, Skills), focusing on its personnel, in order to improve the quality of its services. During the program, 6,290 employees left the company through voluntary departure plans, and other 6,600 employees were retrained. The operation costs of this ambitious program, which was the largest program ever in its kind in Belgium, reached the 25 billion BEF (De Tijd 1998).

In 2001, Belgacom, in agreement with the unions, introduced the 'BeST' plan (Belgacom e-business Strategic Transformation). The program provided the voluntary departure of 4,157 employees with social and financial guarantees and the possibility of remaining active on the labor market, promotion of part-time work with financial compensation, intensive staff training and retraining programs (Telecompaper 2002). Furthermore, one of the pillars of this program was the creation of the four business areas of Belgacom Group: Wireline, Belgacom International Carrier Services (BICS), Mobile and Internet.

With the appointment of the new CEO in 2003, Didier Bellens, former chairman of RTL Group, Belgacom entered into a new phase. In 2004 the Belgacom Corporate University (BCU) is founded proving that way, the intention of management to develop a learning culture within the organization. The university offers training programs based on the latest technological developments and provides the employees with skills and knowledge to adjust in every technological change inside and outside the organization (Proximus Group 2014).

It should be mentioned that since the privatization of Belgacom in 1996, the group faces an important growth in turnover. In 1996 the turnover of the group reached

138.7 billion BEF, in 1998 the turnover amounted was 169.3 billion BEF and the group posted a turnover of 185.8 billion BEF for 1999 (Vanhoucke 2007: 137).

Regarding internalization, after the establishment of BICS in 1997, Belgacom made its first attempt to expand its activities in Europe in 1998 with the foundation of Belgacom France. Continuing Belgacom proceed to an investment together with Tele Danmark in Ben mobile operator in Netherlands, with a stake of 35%. Gradually Belgacom sold all its shares to Deutsche Telekom, which is now the sole shareholder of Ben (Vanhoucke 2007: 141). Other important partnerships have been made with Swisscom, Omantel and MTN in 2005.

3.3.4 Summary and Concluding remarks

In this chapter we followed the successful change of Belgium's national telecommunication carrier from a dysfunctional institution to an efficient organization. The delay of company's adjustment into the reality of telecommunications in Europe of 1990s is attributed to the high degree of political intervention in the sector.

We saw that, even after the corporatization of Belgacom, the political intervention was still existed in high degree. What made the difference was the appointment of CEOs with a business background, who managed to transform the company into a profitable organization with a promising future. The appointment of John Goossens and Didier Bellens as CEO had been proven to be crucial for the future of Belgacom since both of them proceeded to huge investments for the internal metamorphosis of the company.

It is also important to mention that Belgacom is moving into the same direction of sustainable growth grouping all activities into the brand Proximus. The words 'transform, develop, invest and innovate' describe the new 'Fit for Growth strategy' of Proximus Group (Proximus 2015: 25).

Chapter 4
Privatization or status quo: The case of Cyta

Cyprus is one of the latest countries that joined the European Union. As a consequence, all European policies have been adopted in a later stage. Thus privatization appeared as an option in Cyprus thirty years after the first major privatization program, that of UK.

This chapter aims to provide a full view of the telecommunication sector in Cyprus. It begins with the liberalization of the sector in 2003 and it continues with the political framework regarding the privatization of Cyta and the analysis of the company. The SWOT analysis is conducted in order to decide if privatization will benefit the organization. Are the advantages over its competitors sufficient for organization to exploit the opportunities and deal the threats of external environment?

4.1 Liberalization and Regulation in telecommunications

Cyprus during its last steps towards accession to the European Union, which planned for 1st May 2004, had undertaken all necessary initiatives to comply with European Union *acquis communautaire* telecommunication framework. Consequently, Cyprus Parliament in December 2002 with the Act 19(I)/2002 proceeded to the establishment of the Office of the Commissioner of Telecommunications and Postal Regulation (OCTPR), which was renamed to Office of the Commissioner of Electronic Communications and Postal Regulation (OCECPR) under the Act 112(I)/2004.

In accordance with the provision of the Law, the Commissioner is appointed by the Council of Minister and the office is independent. Commissioner's Office took over the responsibility to create the conditions for the liberalization of telecommunications market within 2003. Thereafter the office has given *inter alia*, the authority to grant licenses to telecommunication providers, to supervise and monitor the compliance of telecommunication providers with the law and set the pricing frame.

Until the liberalization of the market in 2003, Cyta was the sole telecommunication provider. As exception, in 1995 Cyta allowed in some Internet Service Providers to connect to its network. However, Cyta had the 95% of the market in 1995 (Symeou 2009: 222). Following liberalization, in 2006 48 telecommunication companies have been granted. Real competition commenced in 2004 with the arrival Areeba (MTN) in mobile telephony, and the arrival of Primetel in 2006 in fixed telephony and internet services. Today the telecommunication market in Cyprus amounts three major players in mobile telephony, Cyta, MTN and Primetel, and three in broadband services, Cyta, Cablenet and Primetel.

4.2 Privatization

Privatizing the telecommunication incumbent in Cyprus had never been in the agenda of Cypriot governments until 2013. Privatization came in the scene as an indirect result of the sovereign debt crisis and the application of the republic to the ESM in June 2012. In April 2013, the Cypriot Authorities signed a Memorandum of Understanding, which contained a series of austerity measures including the initiation of a privatization plan for Cyta. According to the agreement Cyprus government committed to convert Cyta into a limited liability company by October

2015 and privatized it by the end of the program (European Commission 2015c: 122).

In this context, the Privatization Law of 2014 28 (I)/2014 has prescribed the legal frame for the privatization of the state-owned organizations. The Act stated the creation of a Privatization Unit under the direction of a commissioner.

Since then no progress has been made, mainly due to the strong oppositions of trade unions and the other political parties. The five trade unions of Cyta showed their opposition even before the implementation of the Privatization Bill in 2014. All five unions, ignoring Cyta's Board, proceeded to a three-day strike requiring for the bill to include provisions that safeguard their employment and pension rights and their participation in the process of privatization. Their position towards the maintenance of public regime of the organization, their civil employee status and their employment rights has not changed since 2014. Nevertheless, the affiliation of trade unions agreed that Cyta must proceed to some structural reform to modernize the company.

Furthermore, the two large opposition parties, the left-wing AKEL and the moderate DIKO oppose to the privatization of Cyta. More precisely, AKEL refers to privatization as selling off public wealth, a policy that benefits capital and profit and not the ordinary citizens of Cyprus (AKEL 2016: 18). DIKO also opposes to the creation of a joint stock company and the subsequent privatization of Cyta, as no more a requirement within the Memorandum of Understanding. Its position is based to the high importance of the telecommunication national incumbent, in Cyprus economy and national security (Simerini 2015).

In contrast, the government and the ruling party, DISY underline that corporatization and privatization, wholly or partially, is essential for Cyta in order to maintain its leading position in the market. They consider that privatization will have significant benefits to Cyprus economy and that a strategic investor will increase Cyta's value and release it from the institutional restrictions implied from its public regime (Cyprus Press and Information Office 2016).

Due to the objections from the majority of political parties and the forthcoming parliament elections in May 2016, the government withdrew the bills for the denationalization of Cyta, noting, however, that new privatization bills will be submitted to the new parliament.

4.3 Cyta: An internal analysis

In this section we provide an analysis of the internal environment of the company. The section includes some important information about the organization, namely corporate information and governance, market share and financial data. Cyta's organizational structure as well as innovation and development, personnel management and its community involvement are given.

4.3.1 Corporate Information

The Cyprus Telecommunication Authority established as the national telecommunication provider of Cyprus in 1961. It is a semi-organizational organization and still the leading provider of telecommunication in Cyprus. Cyta provides all kind of telecommunication services: mobile and fixed telephony services, broadband and quadruple play services. Cyta has expanded its activities in Greece and UK with subsidiary companies.

Cyta has established a number of subsidiaries within Cyprus and outside; Cyta Hellas AE, Cytaglobal Hellas AE and Cyta UK have been founded in Greece and UK respectively, to expand Cyta's services abroad. Other subsidiaries of Cyta are the Digimed Communications Ltd, CytaCom Solutions Ltd, Emporion Plaza Ltd and IRIS Gateway Satellite Services Ltd.

The main strategic partner of Cyta is the international mobile provider Vodafone. Since 2004 all the mobile services provided by Cyta are branded under the name Cytamobile-Vodafone.

Cyta's mission, as stated in its website, is to provide total (integrated) and reliable electronic communications solutions in a simple, smart and secure way and to improve the way of life and the productivity of our clients (Cyta 2016a).

4.3.2 Corporate Governance

The highest governing body of Cyta is the nine-member board of Directors. All the members appointed to the board are chosen by the cabinet and they represent the major political parties in Cyprus. The board defines the long-term strategy of the organization, approves the budget and is responsible for the implementation of all directives issued by the State through the Minister of Finance. The board appoints the CEO which is responsible for the implementation of company's strategy and everyday management.

Cyta has also appointed the Internal Audit Department, an independent mechanism who acts as a consultative body to Cyta's services to achieve its objectives in the areas of governance and risk management. The department is staffed by full time employees and it has access to all the documents, ownership information and personnel of the group. In addition the Audit Committee is responsible for Cyta's financial statements, the reports prepared by the Internal Audit Department and the staffing and training of the Internal Audit Department (Cyta 2014: 13).

4.3.3 Market Share and Financial Data

Cyta as the incumbent telecommunication provider in Cyprus operated in a monopolistic market until the liberalization of the market in 2003. Since then, its market share showed a decline. As mentioned before, real competition in mobile telephony began in 2004 with Areeba, which was renamed to MTN in 2007, and in broadband services in 2006 with the arrival of Primetel. It is important to mention that the today rival of Cyta in broadband services is Cablenet. Cablenet, which is the only independent provider in Cyprus started its operation in 2007.

Looking at the statistical reports of OCECPR we can observe a decline in Cyta's share. Precisely, Cyta's market share was 73.31% in 2011, 69.88% in 2012, 66.95% and 65.26% in 2014, while MTN increased its market share from 25,69% in 2011 to 30.37% in 2014 (OCECPR 2015b).

In the total broadband access services (Internet, IPTV/Cable TV and fixed telephony), Cyta still holds the major share in the market, besides the yearly increasing share of Cablenet. In 2011 Cyta had the 69.7% of the market, in 2012 60.9%, in 2013 61.4% and in 2014 the 62.6% of the market. Cablenet showed an important increase in the market share since its market share was 12.6% in 2011 and 30.3% in 2014. The small increase in Cyta's market share from 2012 until 2014 stemmed from the increase of share on IPTV service, since Cyta has obtained the broadcasting rights of several national and international athletic events, such as UEFA Champions League, Euro 2016 και World Cup 2018**.**

Cyta's profit for the year 2014 showed an increase from 2013, after three of years of recession, besides the declining turnover. Cyta's turnover for the financial year 2014 reached the €396.487.000 whilst in 2013 its turnover amounted to €434.261.000. The turnover amounted to €451.763.000 and 473.982.000 in 2012 and 2011 respectively. In particular, Cyta's profit for the financial year 2014 reached the €47.600.000 whilst in 2013 company's profit amounted to €37.445.000. The profit amounted to €40.275.000 and €73.282.000 in 2012 and 2011 respectively (Cyta 2015a: 4· Cyta 2015b: 71).

4.3.4 Organizational Structure

Cyta's structure until 2015 was considered as high complex, hierarchical and bureaucratic. The span of control was too wide and this hampered the horizontal, especially, communication across the various communication departments. The result was the delayed response to the fast-changing technological environment and to customer needs.

In July 2015 the new CEO, Michalis Achilleos announced a new structure. The new structure was designed by Detecon International, one of the leading management consulting companies in the world and subsidiary of Deutsche Telekom. The new structure comprises consolidate hierarchical levels based in a more modern and simple design. Under the new structure, four management units are created, all headed by the CEO: the Information and Technology management unit, the Finance and Administration management unit, the Strategy management unit and the Commercial management unit that precludes the Marketing and Sales management unit.

The new structure is to facilitate the communication across the several departments, to speed up the decision-making and mainly to improve the operating efficiency and consequently the customer responsiveness. However, the structure is still mainly a functional one, something that makes the organization rigid.

4.3.5 Innovation and Development

In technology-driven sectors, such as telecommunications, innovation is crucial. Cyta has included in its organization innovation departments, separated for the residential and business products. As an example of the department's work, in 2013 Cyta launched a smartphone app, 'CytaInfo+' which provides immediate assistance to users regarding cytavision channels and program scheme, locations of Cytashops and WI-FI hotspot and connects them with Cyta's social media platform (Cyta 2014: 18).

Continuing, Cyta created the Innovation Centre and Idea Development. The centre supports and promotes, through cooperation with other private and public entities, the innovation in Cyprus by organizing competitions and events, such as Startup Grind Cyprus - December 2015 Event, Business Power Summit 2015 and New Venture Competition 2014-2014 organized by CIIM. Additionally, Cyta is in the stage of developing an intraprenership program that will be applied internally in order to create innovative products and services (Cyta 2015c).

Figure 1: Cyta's old organizational Structure

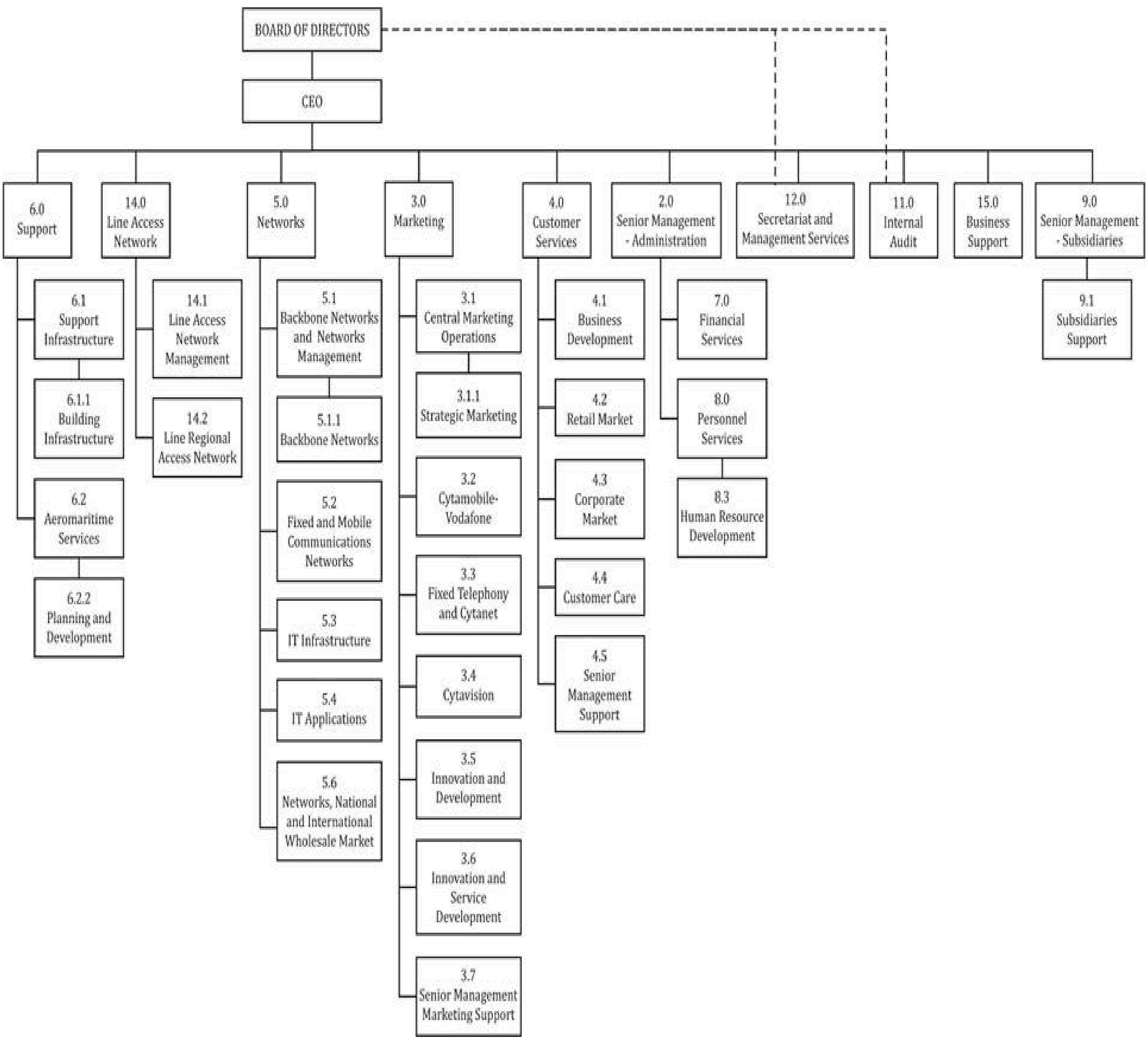
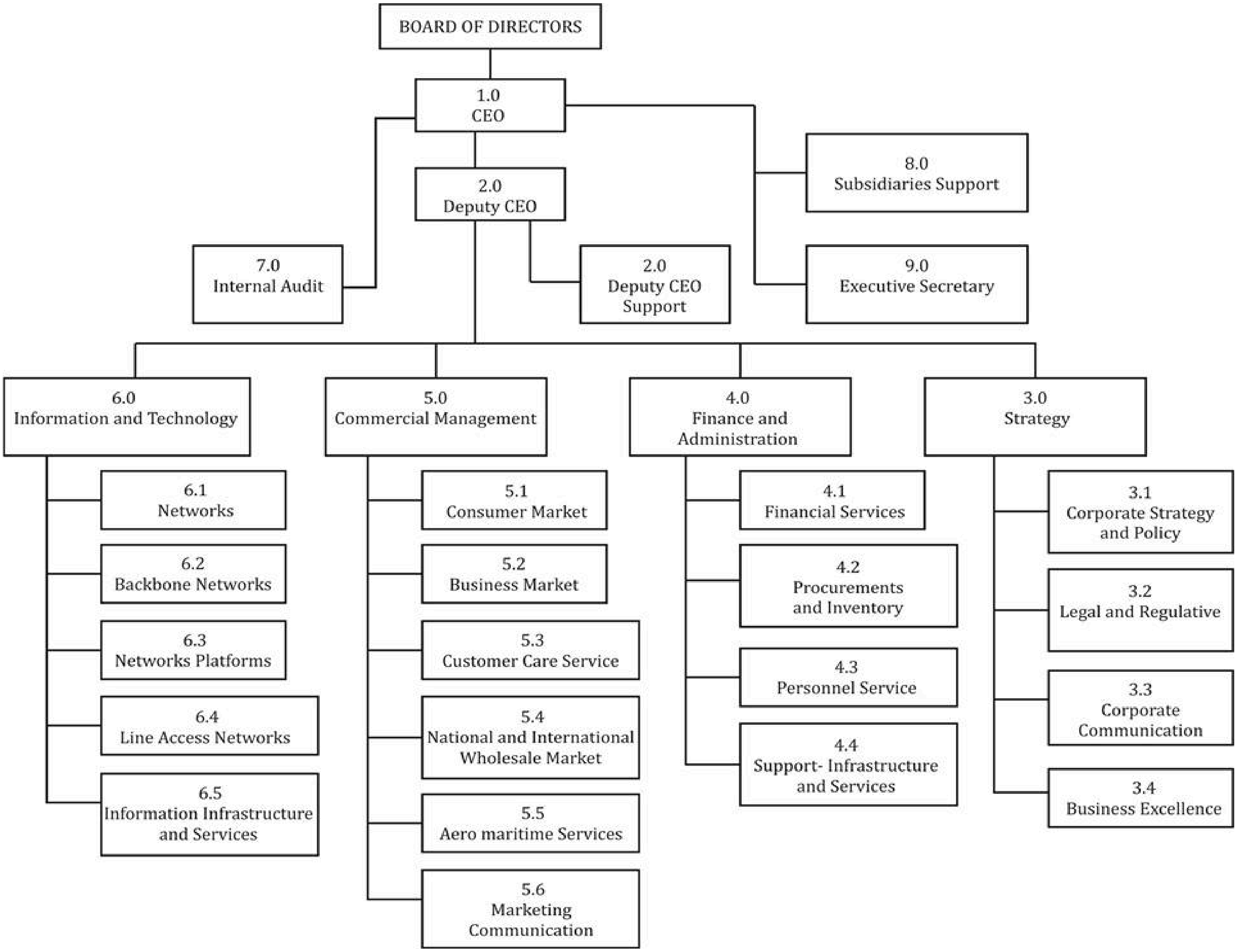


Figure 2: Cyta's new organizational Structure



4.3.6 Human Resource Management

Cyta as a semi-government organization is obliged to follow the recruitment procedures of the public sector. The recruitment therefore, is based on formal examinations and personal interviews organized by the organization. In 2013, Cyta announced no vacancies, in view of the freezing of recruitment in the public and broader related sector (Cyta 2014: 34). Additionally, on December 2013 Cyta in an effort to reduce labor costs introduced the Voluntary Retirement Scheme. Thus, 522 employees retired and received, apart from the pension benefits, an additional amount as compensation for their early retirement as 'career loss', with a maximum compensation of €125.000. At present, Cyta's staff amounted to 1,649 monthly-paid and 596 hourly-paid employees.

Furthermore, the Medical Fund, the Occupational Health Centre and the Welfare Fund are responsible to ensure the physical and psychological health and welfare of the employees, as well as financial assistance to needy employees. It is important to note that all monthly-paid employees enjoy significant privileges of Cyta's services, *inter alia*, free mobile telephony and discounts on Internet and TV services. Regarding evaluation, all hourly-paid employees receive an official evaluation of their performance for each year. No evaluation is conducted for the monthly-paid employees.

In addition, the Training and Development Department is responsible for the personnel training. A series of courses on related-work issues and issues regarding improving productivity and job satisfaction are organized or subsidized by the organization. In 2013, some 31% of the personnel attended at least one training program (Cyta 2014: 34)

4.3.7 Community Involvement

Cyta also contributes to the well-being of society through various campaigns. 'The communication for everyone' campaign address to all people with difficulties in communication, by launching specialized products, services and solutions for those people. In addition, there are discount schemes for special groups, such as people with disabilities or other communication difficulties, students, pensioners and large families.

Other campaigns, organized by Cyta, include the Safe Internet Use and the Road Safety. The Safe Internet Use campaign includes presentations to all schools, emphasizes on the dangers that young people may encounter while browsing the Internet and on practical ways of dealing with such dangers. Additionally, all residential customers and Schools are offered the Safe-Internet Service free of charge (Cyta 2014: 20). The Road Safety campaign focuses in cultivating road safety awareness by seminars on road safety for young people and supporting various projects organized by the Ministry of Communications and Works and by the Police (Cyta 2016b).

4.4 SWOT Analysis

SWOT analysis as a business strategy tool aims to uncover business's strengths, weaknesses, opportunities and threats in order to help the company develop a strategy or a venture. In this section a SWOT analysis of Cyta has been conducted in order to define the favorable and unfavorable conditions of the internal and external environment, to decide if privatization will be a good option for the company. Table 1 shows the results of Cyta SWOT analysis.

Table 1. Cyta SWOT Analysis

Strengths	1. The leading telecom provider in Cyprus as resulting from the major market share Cyta obtains. 2. Universal Service Provider until 31st December 2017, as defined from OCECPR (2015a: 40) 3. Proprietary network with the largest geographical network coverage in Cyprus. 4. Extensive fibre optic cable network linking Cyprus with other countries, such as Greece, Israel, Syria, Lebanon and Egypt. 5. High Customer Care Service: According to OCECPR (2015a: 52) Cyta possess the third place in ranking regarding customer complaints, after Primetel and MTN, which is the provider with

	the most customer complaints. 6. Alternative service channels and social networks (Twitter, Forum, Facebook, Smartphone apps) 7. Exclusive TV rights for international athletic events. 8. Strong Community with over 2000 employees 9. High HR training and development 10. Strong Community Involvement and Sponsorship policy
Weaknesses	1. Delay in the introduction of new technologies. An example can be found in the delayed introduction of 4G network compared with the other two mobile providers. 2. High cost structure. 3. Underdeveloped Research and Development Department. 4. Bureaucratic and Complex Internal Communication and Procedures. 5. Corruption and Scandals within the organization damaged the brand name.
Opportunities	1. Privatization offers opportunities for the expansion of the company's activities worldwide, resulting to financial profit for Cyprus economy. 2. Arrival on new technologies increases the customer interest. 3. Development and Innovation Initiatives 4. Adopt latest technologies regarding Systems and IT applications
Threats	1. Regulative pressures 2. Intense competition. Competitors are gaining ground in the telecommunication market share. 3. Recession in economy results in budgetary and recruitment constraints. 4. High Political Intervention due to the public regime of the company.

Chapter 5
Comparing British, German, Belgian and Cypriot telecommunication policy

Traditionally telecommunications was organized in a national level whereby the government was responsible to provide telecommunication services. In the late-1970s governments realized that the traditional monopolistic telecommunication providers could no longer respond effectively to the radical technological and economic demands of the new world.

Gradually governments proceeded to reforms of the telecommunication sector. They created an open and regulated market and they transformed their national telecommunication incumbents from public monopolies into driven-market organizations. A dominant feature of this process was privatization, wholly or partial, of the national telecommunication providers. This chapter's objective is to summarize and compare the telecommunication policies regarding privatization and organizational development in UK, Germany, Belgium and Cyprus and make some recommendations on the policy that must be followed by the Cypriot authorities.

Beginning with, we can observe that there is not a typically approach regarding the privatization, despite all the common characteristics one may find. First of all motivation differs in all cases. UK was the first country in Europe that privatized its telecom incumbent. They chose privatization as a way to reduce the state intervention in British economy, to relieve the budget deficit and promote efficiency in the underperformed BT. The need to raise revenues for the state was also a strong incentive for privatization in Germany. In addition, Deutsche Telecom needed significant capital funds in order to expand its activities worldwide, something which was also a driver for the privatization in Belgium. A very important key driver for privatization in Germany and Belgium was the EU policy regarding liberalization in the global scene. Consequently, governments initiated privatization programs under the 'fear' not to fall behind in the open international telecom scene.

In all cases, governments' objectives were accomplished; Revenues from privatizations had risen to around £9 billion and around $13 billion for British and German government respectively (Marino 2007:17· Heuermann et al 2007: 154). Furthermore, British Telecom and Belgacom were transformed from underperformed organization into profitable responsive companies, capable to meet the challenges of an open and fast-changing business technology-driven environment. What is important is that none of the privatization of the three companies was conducted through a real competitive environment.

The metamorphosis of the companies into profitable companies is largely due to organizational reforms, which they were taken place after the corporatization and privatization of the companies. The companies through various restructuring projects showed that there was no room for complacency and that the search for the optimal structure must be continuous. Of course, the development of a new business culture within the personnel was also crucial and resulted to various HR training and development projects. The reduction of workforce was inevitable in all three cases, in the face of privatization, technology evolvement and emerging competition.

Regarding internalization, all three companies proceeded to alliances and joint ventures with the vision to become global players. British Telecom's and Belgacom's internalization attempts were not as successful and profitable as Deutsche

Telekom's. They did manage, however to create a significant presence in a number of foreign countries.

It should be mentioned that there are differences between the methods the three counties followed and the degree of ownership kept by the state. UK and Germany chose to privatize their telecom incumbent through IPO, in contrast with Belgium which preferred a strategic partnership due the poor financial condition of Belgacom. UK gradually sold all the shares, including the golden share, of British telecom, while German and Belgian state keep a major stake in their former national providers. UK followed a drastic privatization activity while other countries' policy is considered as less radical and patient.

In the case of Cyprus, government motives towards privatization were mainly economic in the beginning. Cypriot authorities considered privatization as a condition in the Memorandum of Understanding. Nevertheless, only recently the argument that privatization will benefit the organization appeared on the government's agenda, while the other parties disagree considering Cyta as an already profitable and efficient organization.

There is a convergence of political perceptions in all countries concerned. Left-wing parties were traditionally opposed to privatization. What is interesting is that the large left-wing party SPD in Germany finally agreed to privatized Deutsche Telekom after two years of discussions, while in UK and Cyprus -until today- the large left-wing labor parties were strongly opposed to any kind of privatization.

Going a step further, the examination of the metamorphosis of former national telecommunication companies in Europe makes it difficult for one to believe that reforms are irrelevant from the change of ownership.

Looking at the SWOT analysis of Cyta we see that the company has significant internal strengths that give it precedence over its competitors. Nonetheless, the presence of external threats, especially the fierce competition combined with budgetary constraints, creates doubts regarding the future of the organization. Thus, we believe that Cyta is now in the right timing to get privatized. The competition is in a satisfactory level in order to not allow the creation of a private monopoly. Besides the undeniable financial benefits on state budget, privatization will provide Cyta with the ability to enchase its strengths, eliminate its weaknesses and exploit the opportunities to be developed.

A strategic partnership with a strong and experienced telecommunication institution is what Cyta needs right now. The strategic investor must be selected by the government in collaboration with other consultative bodies, through an international auction under transparent procedures. The proportion of sale is an also important factor government must take into account. A significant stake would ensure that the government will enjoy a stake of profits as dividend. Surveys, however, revealed that fully private ownership is the regime demonstrating the best performance in terms of both productivity and competitiveness (Karagiannakis et al. 2014b: 20). Of course, at a later stage Cyta can enter the stock market in a higher price, combining that way the sales trade method with IPO and maximize the revenues of the state.

It is also necessary for the government to establish a strong regulative framework in which the newly privatized company will operate in order to ensure, mainly, some welfare goals, such us employment in the first years of privatization, equal access to service and community involvement.

The leadership of the organization is equally crucial. The board of Directors should include executives and non-executives directors such as no individual or small group of individuals can dominate the decision making and it should undertake an annual evaluation of its own performance and that of its committees and individual members. A strategic investor will reduce the political intervention, in the selection of the board committee and consequently in the appointment of the CEO. Belgacom's experience made clear that in countries in which politicians play a significant role in economy and business world, the change of ownership, even partially is a way for capable individuals to take the leadership. The best CEOs are people with a business background in private sector able to define a long-term strategy and lead the firm to operate in a privately owned environment.

Turning to the internal environment, it is crucial to cultivate a new business culture within the already existing staff, and revitalize all the personnel procedures. Changing the culture within a large organization is difficult and needs time, but it can be implemented by cultural programs which emphasize on the beneficial outcomes of the privatization. All the procedures regarding recruitment, remuneration, motivation, evaluation and rewarding must be revised. Especially the selection of managers must be left to private investors who will be in a better position, away from politics, to judge who have the ability to unlearn the past ways and learn new ones to employees to act in the new organizational environment.

Conclusions

Aim of this master thesis was to explore the privatization as an option for the national telecommunication provider in Cyprus, by examining the route of metamorphosis of European former national providers, namely British Telekom, Deutsche Telekom and Belgacom. Due to the high controversy regarding this policy we considered as crucial to provide the theoretical framework. Examining the definition, rationale, history of privatization in Europe, and especially the arguments in favor and against we came to the conclusion there is no standard outcome or single right approach. A privatization program could be successful or not depending on the competitiveness of the sector and the regulative framework the government will define.

The analysis of western European telecommunication companies unveiled how the state-owned agencies were transformed to listed companies, what were the objectives behind this development and what were the main stages of the change. Continuing, in order to decide if privatization could be a good option for Cyta, we found it inevitable to proceed to an analysis of the telecommunication sector in Cyprus. We considered that the cross-national examination of related-sector privatized companies is the only way for one to decide if privatization could turn out beneficial or not. An analysis of the incumbent including a SWOT analysis is important to decide it privatization is the right option in the case of Cyta.

Cyta is indeed the leading telecommunication provider in Cyprus. It possesses a significant but also declining market share. The constraints of its state-owned regime do not allow it to be developed and exploit its opportunities, and keep it imprisoned into a bureaucratic and underperformed public sector. The cross-national examination of related-sector privatized companies revealed that privatization is the way to free the company from these constraints. The nature of the organization demands financial and managerial autonomy and flexibility, focus on technological innovation, continuous organizational and personnel development and a strategy emphasized on the customers' needs.

As a conclusion, unfortunately the Cypriot society is characterized by conservatism and fear of change. We hardly recall actual reforms on the public sector. Misuse of powers, overspending, scandals, failure in the selection of boards and poor management are the characteristics of public sector in Cyprus, while the political system is cumbersome and maladaptive to changes. In this context it is necessary for Cypriot society to become more open to change and the privatization of the national telecommunication provider can lead the way.

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