

**AN ASSESSMENT OF SEAPORT PRIVATIZATION
IN SAUDI ARABIA:
A CASE STUDY UTILIZING GROUNDED THEORY APPROACH**

BY

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LIST OF ABBREVIATIONS

KSA	-	Kingdom of Saudi Arabia
BOT	-	Build Operate and Transfer
ADB	-	Asian Development Bank
UAE	-	United Arab Emirates
COM	-	Council of Ministers
SPA	-	Saudi Port Authority
GDP	-	Gross Domestic Product
WTO	-	World Trade Organization
PE	-	Public Enterprise
USA	-	United States of America
PPP	-	Public Private Participation
n.d	-	no date
SAMA	-	Saudi Arabian Monetary Agency
SAGIA	-	Saudi Arabian General Investment Authority
SEC	-	Supreme Economical Council
OECD	-	Organization for Economic Cooperation and Development
BMI	-	Business Monitoring Intelligence
CMI	-	Capital Market Authority
VTS	-	Vessels Traffic System
TEU	-	Tonnes Equivalent Units
GAB	-	General Auditing Bureau

KAJIAN TERHADAP PENSWASTAAN PELABUHAN DI ARAB SAUDI: KAJIAN KES MENGGUNAKAN *GROUNDED THEORY*

Abstrak

Arab Saudi merupakan salah sebuah negara yang lewat menerima penswastaan berbanding dengan negara-negara lain. Dasar penswastaan telah dimulakan pada tahun 1990-an dan salah satu sektor yang paling awal yang melibatkan sektor swasta adalah Seaport.

Tujuan penyelidikan ini adalah untuk mempelajari hasil daripada penswastaan Seaport yang hampir 10 tahun pelaksanaannya, untuk menilai sama ada objektif penswastaan yang diistiharkan tercapai dan telah menyumbangkan faktor-faktor yang positif/negatif serta untuk mencadangkan langkah-langkah yang lebih baik bagi mengurangkan kelemahan-kelemahan, sekiranya ada. Keadaan aktiviti yang terlalu kompleks di Seaport memerlukan kuasa pelabuhan untuk menyelaras pelbagai jabatan yang berbeza di dalam kerajaan terutamanya apabila membuat pengawasan kerja-kerja yang dilakukan oleh pelbagai pihak swasta bagi memenuhi kepuasan pelanggan pelabuhan supaya aktiviti import dan eksport dapat berfungsi dengan lancar. Berdasarkan kerumitan perkara ini, satu kaedah kajian kes dilakukan bagi menjelaskan keadaan tersebut di mana pengumpulan data dibuat melalui kerja lapangan secara ekstensif yang mengandungi temubual secara semi-struktur dan menemuramah secara tidak rasmi termasuklah individu-individu pada pelbagai peringkat dan bidang berbeza di dalam dan di luar bidang kuasa Seaport, menyemak semula dokumen-dokumen serta pemerhatian di lapangan. Teori Grounded telah digunakan untuk menganalisa data yang dikumpulkan sehinggalah rumusan dimuktamadkan dan cadangan-cadangan.

Penyelidikan ini dapat dirumuskan bahawa objektif penswastaaan yang telah diisytiharkan tidak tercapai sepenuhnya. Berdasarkan data-data yang diperolehi daripada penyelidikan ini telah menunjukkan bahawa penswastaaan Seaport hanya memberi sumbangan positif ke arah meningkatkan kecekapan dan produktiviti, hasil yang diterima oleh kerajaan semakin meningkat dan pada masa yang sama juga telah mengurangkan perbelanjaan kerajaan pada Seaport. Ini juga telah menyediakan peluang-peluang pekerjaan, walaupun ia tidak mencapai tahap yang dijangka untuk mengurangkan masalah pengangguran. Pencapaian juga boleh dipertingkatkan lagi kepada keadaan yang lebih baik dan lebih tinggi. Objektif penswastaaan ini tidak tercapai sepenuhnya adalah disebabkan oleh faktor-faktor yang signifikan seperti birokrasi kerajaan, kelemahan sektor swasta, halangan dari dalaman dan luar yang tiada wawasan serta keadaan infrastruktur yang tidak mencukupi. Oleh yang demikian, kajian ini mengesyorkan supaya pertimbangan harus diberikan kepada Port Green sebagai satu korporat yang bebas yang memerlukan membuat perubahan organisasi dan melakukan strategi operasi yang proaktif. Sebagai sebuah organisasi yang bebas biasanya pihak pengurusan pelabuhan akan memastikan operasi dilakukan secara komersil dalam menghadapi persaingan dengan pelabuhan lain di dalam daerah maupun di peringkat antarabangsa.

AN ASSESSMENT OF SEAPORT PRIVATIZATION IN SAUDI ARABIA: A CASE STUDY UTILIZING GROUND THEORY APPROACH

Abstract

Saudi Arabia, one of the late adopters of the privatization as compared to other countries, has embarked on the privatization policy in late 1990s with seaports being one of the earliest sectors that the government opened up for private sector involvement.

The purpose of this research is to study the seaports privatization outcome after nearly 10 years of its implementation and to evaluate whether the declared privatization objectives have been achieved and the contributory positive / negative factors, as well as to suggest curative measures to mitigate the shortcomings, if any. The complex nature of port activities need the port authority to co-ordinate different departments within the government while supervising the works by various private sector players to satisfactorily meet the obligations towards the port users for smooth functioning of import and export. Due to this complexity of the subject, an explanatory case study method is used whereby the data collection is done through extensive field work consisting of semi structured interviews and informal conversations with wide spectrum of individuals at various levels and different fields within and outside the seaport authority, review of documentations as well as field observation. Grounded Theory was utilized to analyze the collected data and to arrive at final conclusions and recommendations.

The research concludes that the declared privatization objectives have not been fully achieved. The data collected through the research field work gives ample proof that the privatization of the seaports has positively contributed towards increased efficiency and productivity, enhanced the port revenues received by the

government while at the same time reducing the government expenditure on seaports. It has also provided employment opportunities, even though it has not reached the expected levels of mitigating the unemployment problem. Achievements could be elevated to better shape and higher level. However, due to significant factors such as governmental bureaucracy, weak private sector, internal and external hindrances and lack of foresight and inadequate infrastructure, the objectives were not fully met. Hence the research recommends that a consideration should be given to make the Green Port as an Independent Corporation with necessary organizational changes and proactive operational strategies. Such an independent organization is necessary to ensure that the port management and operations are done on a commercial basis in competition with other seaports within the region as well as at international levels.

CHAPTER 1

Research introduction

1.0 Introduction

This chapter starts by laying out the research objective, followed by general background to the research, the research problem statement and research question. It will also cover the significance of the research, its theoretical and practical contributions and limitations. The chapter will conclude with a brief explanation of the structure of each of the eight chapters in this research.

1.1 Background to the research

Right from the inception of human civilization, it has been generally accepted that the rulers of a country, irrespective of whether it is a monarchy, democracy or autocracy, are responsible for providing infrastructure facilities such as transport and communications (roads, railways, civil aviation, post and telegrams, telephones etc.), electricity, water, education, health services, municipal services etc. In commons with all other nations in the world, the government of Saudi Arabia has also been providing these services to the community as part of its responsibility to the citizens of the Kingdom, since the Kingdom was founded. This has become an expectation of the state for more than 60 years, even in the western world, in spite of their firm belief in the capitalist ideology of the economy, since they also believe that provision of these services to the community is a duty of the state.

It was only during the 1970s that the demarcation between the government ruling the nation and shouldering the cost burden of infrastructure facilities was vigorously debated among economists, philosophers, politicians and intellectuals. “Beginning

with Chile in the mid-1970s, and continuing with the United Kingdom in 1979, New Zealand and France in 1984, Singapore and Malaysia in 1985, Latin America, and other European countries 1990s, the global push to privatization has heralded a change in governance practices” (ADB 2001-15). Accordingly, a new idea had been developed and globally accepted that the state or government should concentrate mainly on governing the nation and offload the provision of services such as water and electricity, communications, health services and education, to the community and private entrepreneurs.

The rationale behind this argument runs along the following lines:

It is a universally-accepted fact that government bureaucracy is always slow in its actions and inefficient in its performance. This reflects on the performance of most of the service industries managed by the government, resulting in uncontrolled losses to the treasury.

It is generally perceived that private enterprises are always managed more efficiently. Having profit as a motive leads to better productivity and better performance of the enterprises that in turn helps the industry in which they are operating as well the national economy. Private enterprises are operated under a free market economy, in which there is sufficiently healthy competition benefiting both the enterprise as well as the customer.

The fundamental principle of offloading government-run industries and services to the private sector, has been the subject of an ongoing debate in the Western world over the last three decades. Adoption of this policy has moved eastwards since the 1990s and is being implemented in North Africa, the Middle East, India, Pakistan and other Asian countries hoping to follow the successful approach of the western

world; it is generally perceived that healthy economic development is achieved if privatization is well implemented (Dinavo et al. 1995).

As part of a country's infrastructure, the seaport sector is considered a major player in the development of the national economy, and the sector's contribution is expected to grow in the future. A highly productive and technically advanced port infrastructure is an essential part of an efficient trading system and network. In Asia, successful and flourishing economies such as Singapore, Thailand and the UAE have been built by providing first-class port services. The attractiveness of ports is no longer based solely on their strategic locations but also their capacity to provide efficient and timely services, in addition to being linked to efficient land and sea transport networks.

The Kingdom of Saudi Arabia has fallen in line with the international privatization trend and has embarked on the privatization of its public enterprises on a massive scale. The main objectives in doing this are to improve the efficiency of the national economy, enlarge Saudi citizens' ownership of productive assets and encourage local and foreign capital investment in the Kingdom (Council of Ministers Decree No. 50 dated August 6th 1997). In 2003, the Saudi Council of Ministries (COM) approved a list of 22 targeted economic activities and government services to be privatized. The list includes aviation, railways, roads, industrial cities services, many municipal services, social services, agriculture, and medical services, in addition to the sale of government shares in national corporations. Based on this list, the private sector is being invited to participate in many economic activities and services.

Although, the Saudi COM call for the privatization of some public sector activities was made in 2003, Saudi Arabia had already started implementing some forms of

privatization (such as contracting out management and operation) in the mid-1990s, to both overcome technical manpower scarcity and improve efficiency in some strategic public enterprises, e.g. Saudi Sea Ports Authority (SPA). In 1997, the Saudi government approved a partial privatization plan of the SPA, by inviting the private sector to participate in operating the seaport on a commercial basis. The main elements of the new scheme were that the ownership of all ports, berths, terminals and their facilities would remain in the hands of government. However, the government would delegate the management, operations and maintenance of the terminals and facilities to the private sector, through leasehold contracts. This also encouraged the private sector to invest in the heavy equipment and technologies necessary to operate the ports effectively and efficiently. For its part, the private sector would run all port terminals on a commercial basis, provide innovative services in the ports and implement a Saudization program to create employment and training opportunities to Saudi nationals.

In addition to the three factors which constitute the rationale behind the privatization argument noted above, the Kingdom of Saudi Arabia has more pressing reasons to adopt a privatization policy, in comparison with other nations of the world.

One reason, is the Kingdom's lack of economic diversification; it is still heavily dependent on its oil revenues. The predominance of Saudi Aramco for oil production and export has dwarfed the growth of the private sector in the Kingdom, in comparison with the private sector in the Western world. Hence the government's bid to enhance the private sector's capabilities and performance for future challenges. In addition, the Kingdom has a responsibility to provide gainful employment to its growing population; the country's population growth rate is among the world's highest, which has led to a surprising decline in per capita Gross

Domestic Product (GDP) over the past 25 years. The average Saudi citizen has not yet reached the level of education, expertise and experience that is needed to contribute actively at different levels to ensure the efficient functioning of the Kingdom's businesses, industries and government entities. This has resulted in a major influx of expatriate workforce at all levels, in all types of organizations from government-run to privately owned (SAMBA Finance Group, 2009).

In addition, the preferential treatment offered to Saudi citizens in employment, particularly in government offices and undertakings, has created a mindset that Saudi citizens will always have a dominating role irrespective of their capabilities. However, such a policy cannot be made mandatory in the private sector since private entrepreneurs, for their survival and success, need result-oriented performances and employees that contribute to this performance. There is a serious need to break this mindset for the long term interests of the Kingdom and its citizens. The Government intends to achieve multiple objectives in the partial privatization of public sector activities, to achieve the following four objectives (Bakr, 2001):

1. Strengthen the role of the private sector in the economy by opening up vast areas of the Saudi economy to private investors, both local and international.
2. Improve the overall performance of the concerned enterprises because the private investor strives to achieve results proportionate to the investment made and costs.
3. Open up opportunities for Saudi citizens' employment in both government and the private sector, wherein they have to compete with the expatriate workforce on a level playing field and prove they are capable of operating companies efficiently and productively.

4. Improve the public sector's financial health, to make resources available for allocation to other government activities.

The first three objectives are related to the creation of a well functioning market with an investor-friendly economic environment. In doing this, the total surplus will increase, by increasing output and lowering prices and ensuring more efficient use of resources within the enterprises. The last objective relates to reducing government subsidies and reallocating these resources to social policies (Sheshinski and Lopez-Calva, 1999). Finally, the Kingdom wants to feel the benefits of World Trade Organization (WTO) membership. To meet some of the present requirements of WTO membership, the Kingdom has to open up as many sectors as possible to the private participation in order to create higher standards of living and wealth distribution. The Kingdom also wants to improve its international political image, and privatization is seen as being indicative of economic democracy and liberalization.

1.2 Problem statement

The main problem of Public Enterprises (PEs) is their conflicting objectives. On one hand, the government intends to operate the PE on a commercial basis by financing the debt but not the equity. However, on the other hand, as a social obligation the government provides services at subsidized costs and not at actual cost, creates employment by hiring an incompetent workforce without giving them appropriate incentives and enforcing accountability standards. Obviously this conflicting objective had resulted in the low efficiency and poor productivity that is present in PEs (Nellis, 2005).

In fact, productivity and efficiency in the public sector are a major economic concern, as suitably summarized by Galal (1996, p. 5) “Productivity is difficult to measure for the entire Public Sector, since there are no meaningful price indices to measure outputs and inputs”. Various corrective measures have been implemented and reform policies adopted by governments from time to time, to improve efficiency and productivity¹ without changing the ownership. Privatization is one such reform policy. However, the results have not been uniform, being positive or successful in some countries such as Singapore, Chile, and Korea, and showing little or no effect in many other countries. Nellis (2005, p.5) indicated that “even when results were positive, they tend not to last”.

There is therefore no consensus among economics scholars that privatization will definitely remedy the lack of productivity in PEs.

In view of these conflicting opinions among economic scholars, many countries elected to pursue a privatization policy to overcome their macro or micro economic difficulties, while adopting a more cautious approach to implementation.

In order to keep pace with the rapid industrial and commercial developments in the region, and due to the complexity of the activities involved, Saudi Arabia has adopted a policy of partial privatization for all seaports. Through this approach, the seaport authorities have delegated the management and operation including upgrading (investment in heavy equipment and buildings) of the terminals and facilities to a specialized private sector. The main objective is to increase efficiency

¹ - Authors have used efficiency, productivity and sometimes productive efficiency for the same meaning, I am going to use in this research productive efficiency for the meaning of improving productivity.

and productivity, without divesting state ownership and overall control of the port, since it is of paramount importance in terms of national security. However, this approach is opposed by others who argue that state ownership could still affect the aim of the privatization process (to improve efficiency and productivity) because state interference is equivalent to political intervention through side-payments and favoritism.

1.3 Research questions

As stated by several scholars such as Perry (1994) and Zuber-Skerritt and Night (1986), it is important for researchers to clearly define their research problems as an instrumental element in their research activities, and to establish an explicit problem in order to set appropriate boundaries around the research problem. Accordingly, the present research addresses mainly one exploratory question:

What are the benefits gained from the privatization of the Green Port in terms of the objectives specified by the government i.e. to increase the port's efficiency and productivity, to enhance port revenues and reduce government expenditure? And how have various factors contributed to the success / failure of meeting these objectives?

In order to address this core question the research will explore the following subordinate questions:

The first sub-question is: why did the Saudi Government elect to pursue a privatization policy in general, with specific reference to Saudi seaports, and what are the objectives and measures the government has taken to create a suitable environment for private sector investment?

The second sub-question is: what are the achievements (if any) of the privatization of the Green Port. And how were these achievements accomplished?

The significance of the main, core question is that the Saudi Arabian government is determined to involve the private sector in a considerable privatization program that includes more than twenty service sectors. This research will explore the experience and the effect of privatization on one of the first sectors i.e. seaports, to be partially privatized.

1.4 Significance of the research

Having analyzed the rationale behind the privatization of key sectors in the Kingdom of Saudi Arabia, questions may be raised as to why such research should be pursued:

There is no doubt that the rationale of privatization has lofty principles (standards) and has shown fruitful results in many countries. However, since Saudi Arabia has recently introduced a privatization policy for public utilities and other service sectors, and improving productivity has become a government priority, a closer analysis and assessment are needed for the following reasons:

The Kingdom of Saudi Arabia is the Custodian of two Holy shrines which creates a special responsibility on the Kingdom's rulers to provide more efficient services in these locations. This requires close monitoring, in order to ensure the services provided by the private sector to the Hajj or Umra are high quality.

The Kingdom also shoulders the responsibility of being the world's largest oil producer. The Kingdom has in the past sacrificed its interests to maintain a delicate balance in world oil prices. There is a need to prove that privatizing different service sectors such as telecommunication, electricity, seaports and airlines will not affect oil

production and export. The privatization of key sectors is being done by opening up these sectors to locals as well as foreign investors, without discrimination. There is a need to evaluate the pros and cons of opening up key sectors to foreign investors, especially with respect to religious and cultural activities in Saudi Arabia, given its responsibility of maintaining the holy sites of Mecca and Medina.

The Kingdom intends to open up almost 22 sectors to privatization. This has not worked very successfully in some countries; see for example Manthan Database (PSP-Failed projects, www.acquabenecomune.org). Even in the most advanced nations, there have been wide variations in the methods and techniques employed for privatization. In some cases, privatization failed and had to be retraced. There is therefore a need to make a proper assessment of the methods proposed for some sectors and to come up with suitable recommendations.

The concept of privatization is theoretically good since it has been argued that it leads to improved efficiency and a reduction in the financial burden on the state. In reality, it is observed that on many occasions, lender organizations and/or donor nations force this concept without properly evaluating the actual circumstances (social, political, economic etc.) in the specific country. What succeeds in one place need not necessarily succeed in other places, resulting in backlash and failure (Irianto, 2004). Thus, privatization in each country should be assessed by looking at the extent to which the stated objectives have been achieved (Sheshinski and Lopez-Calva, 1999).

Academic research looking at privatization in the Middle East and specifically in Saudi Arabia is to date, very limited. A review of the academic contributions relating to the Saudi economy found that there are three PhD dissertations addressing

privatization in Saudi Arabia. Two are related to the feasibility of adopting a privatization policy, i.e. “The feasibility of Privatization in Saudi Arabia, by: Mweisher 1995” submitted to Temple University, Philadelphia, USA”, and “Privatization For Development: An Analysis for potential private sector participation in Saudi Arabia, by: Nafieh 1990” submitted to University of Pittsburg, USE, and one dissertation related to the impact of privatization i.e. “ Privatization and Saudi Public Hospitals: The impact of Contracting on the quality of services, by: Barrak 1998, submitted to Mississippi State University, USA. In addition, there is one M.Sc dissertation relating to funding techniques i.e. “Investigation of Funding Techniques for railways Expansion projects in Saudi Arabia, by: Shafi 2006” submitted to KFUPM – Saudi Arabia.

These dissertations are of limited significance as they do not address the depth of privatization and the consequences of its implementation, as they were conducted prior to the implementation of privatization in Saudi Arabia.

There are also other contributions in terms of articles in periodicals or presentations made in international forums that touch upon privatization in the Middle East or more specifically, in Saudi Arabia. Some of these examples are: “Privatization and PPP in the KSA: Major projects and emerging investment opportunities, by: Crothers, Cousin, Willetts, and Nouel (n.d), “ Moving towards a privatization economy, by: Pampanini (2006)”, “Privatization in Saudi Arabia: An attitude survey, by: Al-Sarhan and Presely (2001), “ Privatization In Saudi Arabia: Developing structure of management Implementation of the program, by: Al-Buridi, Gupta and Wamuziri (2007), “Saudi sets up firm to oversee water privatization, by: Hammond(2008)”, “ Investment needs and privatization of water services in Saudi Arabia, Bushnak (2001)”, “A model in Privatization, by Bakr (2001), “Privatization in Saudi

Arabia: Is Slow Beautiful? By Akoum (2009), “Employment attitude towards the privatization of Kuwait’s government departments and state owned enterprises, by: Madzikonada and Njoku (2008)”, “Privatizations and public private partnership (PPP) in the Middle East; Newendorp, Raman & Taylor-Dejongh (n.d), “Privatization in Lebanon - Middle East Airlines: A case study; Nsouli (2007), “Privatization in Egypt & Tunisia; Belev (n.d), “ Privatization in Turkey – A non-success story; Yasar (n.d), “ Privatization concerns – Iran; Economic Focus, “daily newspaper” (2006), “ Privatization Trends; Kikeri and Burman (2006), “ Mastering the challenges of the Middle East aviation system; Ringbeck, Majdalani & Galal (2006), “ Jordan port to be privatized; Stensgaard (2004), “ Privatization: A review of policy and implementation in selected Arab countries, Younis (1996)”, “Reforming Israel’s ports; Etzioni (1961)”, “ Saving and privatization: Egypt Case, Galal (1996)”, “Structural reforms in the Middle East and North Africa, Page (n.d)”.

However, such contributions lack a global view of privatization and therefore cannot be judged as research theses on the subject of privatization. Given that the Kingdom of Saudi Arabia is embarking on a large scale privatization, there is a great need to conduct investigative research to evaluate whether the intended benefits of privatization have been achieved and how. Moreover, what factors have contributed to attain these achievements and what were the hurdles faced in the process? Such a study will serve as a reference point for future use.

Therefore, this study focuses on examining the impact of privatization on one of the major ports in Saudi Arabia (the name of the port has been changed to Green Port to ensure confidentiality). More specifically, it focuses on the ‘why?’, ‘what?’ and ‘how?’ of the Saudi Government’s and specially the Port Authority’s approach to monitoring and leading the successful implementation of the privatization policy.

Because little, if any research has been carried out with the aim of better understanding the relationship in an organizational context, related strategic management decisions, and the reported successes of privatization, this study will contribute to the practical and realistic understanding of such an important initiative.

1.5 Contribution of the research

The aim of this research is to deepen our understanding of the concept of privatization and its specific application in Saudi Arabia's seaports. This will be done by reviewing the theoretical arguments that support the belief that privatization can help the government in achieving its stated objectives, i.e. improving efficiency, encouraging broader ownership of the Kingdom's companies through shareholdings, and reducing the government's financial burden.

The focus will be on a case study which includes one of the major ports in the Kingdom that was privatized in 1997. This will serve to measure the effect of privatization against the projected objectives in terms of efficiency, productivity, the investment of the local and international private sector and the private sector's contribution to the employment and training of Saudis citizens, using empirical data collected from different sources for the period from 1995 to the end of 2008.

Since there are very limited academic research works conducted in Saudi Arabia and in the Middle East related to privatization policy, it is believed that conducting a research based on a qualitative approach using one of the Saudi organizations as a case study will lead to reflections or evidence which in turn could pave the way for a better approach to the privatization of other Saudi service sectors. Theoretically, the findings of the research will add to the available knowledge, a theory that was developed through ground work pertaining to the benefits and constraints associated

with privatization particularly in developing countries that does not have mature legal and governing systems. The fact that several scholars have discussed privatization through different aspects (i.e. governing side, efficiency etc.) and had different conclusions, the finding of this research will contribute significantly to the growing quantity of academic literature on the privatization of public enterprises generally and in particular in Saudi Arabia and similar countries through identifying the most important factors for the successful public-private-participation (PPP).

It is my understanding that there are not many thorough, academic works that have been conducted to review and assess the experience of privatization in Saudi Arabia. One reason for this lack of research is the infancy of the experience and lack of sufficient empirical data to allow for comparative studies, before and after privatization. This research will pioneer efforts in this direction. As such, it is hoped it will contribute to the body of research for policy makers, enterprise management and regulatory agencies in the government, to enable them to judge the direction the experience is taking and thereby introduce necessary modifications as required. The research highlights the weakness and strengths of the Saudization policy in terms of its impact on productivity of seaports. This will, no doubt, focus the attention of the seaports management in this respect, and will eventually enhance their planning and strategic management capabilities which will further improve the performance of seaports. Finally the research outcomes add value to the privatization literature by providing additional empirical evidence of productivity and performance improvement by adopting a carefully selected model for successful public-private-participation.

1.6 Organization of the thesis

I have organized my thesis into eight chapters as follows:

Chapter 1 provides an overview of all the research, including the main subject and objective of the research, followed by the problem statement and research question i.e. the key question and subordinated questions. The chapter concludes with the research significance and its contributions.

Chapter 2 provides an overview of Saudi Arabia including political, social and economical factors, and an overview relating to the approach to privatization in Saudi Arabia and more specifically, privatization of seaports.

Chapter 3 deals with the literature review, describing privatization including definition and rationale, objectives and constraints, methods of privatization and its impact and sustainability based on international experiences. The chapter also includes general information related to the seaports privatization modes of operandi, the impact of seaport privatization and selected examples of international experience. It also includes theoretical discussions of different school of thought in terms of the theories that were employed to discuss the privatization arguments relating to ownership, productivity and efficiency. These theories include, Principle Agent, Public Choice, Property Rights, Stewardships Theory and Stakeholder Theory. The chapter concludes with the ground reality.

Chapter 4 of the dissertation outlines the Research Methodology. This includes the general research methodology approach that consists of a description of general approaches i.e. qualitative research, and a concentration on the case study approach that was followed for this research including the research process, data collection and

the Grounded Theory approach that was used for analyzing the case study findings. This section also covers the origination of the Grounded Theory and the difference between the authors, the data collection and process including open coding, axial coding and selective coding, the theory development strategy and essential features, data validations and confirmed findings.

Chapter 5 covers the privatization approach in Saudi Arabia and incorporates the answer to the first research sub-question i.e. the rationale and objectives of privatization in Saudi Arabia and what measures the government has taken to create a suitable environment for private sector investment. The chapter has specific coverage of seaport privatization in Saudi Arabia, including context and reforms and the different phases of the privatization of Saudi ports.

Chapter 6 covers Part II of the case study, including answers to the second research sub-question. The chapter looks at the achievements of Saudi seaports privatization, and the factors that have contributed to its successes and failures.

Chapter 7 contains analyses of the field work findings, using the Grounded Theory method. The chapter attempts to describe research findings through the different coding procedures and concludes with the core category of the research and the suggested model.

Chapter 8 of the dissertation covers the purpose of the study, the methodology employed, recapitulation of the study findings, the theoretical and practical contributions and research limitations of the study. The chapter concludes with suggestions for future research.

CHAPTER 2

Overview of Saudi Arabia

2.0 Introduction

Chapter 1 dealt with the objective of the research and the research background. It has further explored the problem statement and the questions that need to be addressed in the research. The chapter also touched upon the significance of the research and the contributions that the research is expected to make. Based on all these parameters, the chapter has detailed the organizational structure that this research is expected to follow.

Chapter 2 offers a political, social and economic overview of the Kingdom of Saudi Arabia. The chapter starts with an explanation of the Kingdom's history, government, law and governing systems and the organizations that were established to plan and monitor its privatization initiative. The chapter also includes an introduction to Saudi society, education and cultural homogeneity and values. The chapter concludes with a brief explanation of privatization in Saudi Arabia.

2.1 Population

In 2007, the population of Saudi Arabia was estimated at 27.6 million, of which Saudis comprise 22.02 million and expatriates 5.6 million. A significant feature of the Saudi population is its young population; citizens below the age of 30 account for around 73% of the total population with a growth rate of 2.3% (CIA The world Fact book -Saudi Arabia est. 2007).

The working labor force stands at 7.52 million, comprising 3.43 million Saudis

(male-2.94 million, female-0.49 million) and 4.09 million non Saudis. The total number of employees in the government sector stands at 803,700, consisting of 733,900 Saudis and 69,000 non-Saudis. In the private sector, there are 5.58 million workers, of which 0.71 million are Saudis (0.67 million male and 0.04 million female) and 4.87 million are non Saudis (male 4.78 million, female 0.08 million) (Saudi Central Department of Statistics and Information 2006).

2.2 History

The Saudi Arabian state is a monarchy that was first established in the central region of the Arabian Peninsula in the early 18th century. By the early 1800s, the Al-Saud family ruled much of the Arabian Peninsula. This rise of the Al Saud family to power alarmed the Ottoman Empire, which sent its armies to contain the influence of the Al-Saud clan. The Ottomans ultimately captured Diriyah (an area south of Riyadh), thus ending the first phase of the Al-Saud reign in 1818.

Modern Saudi Arabia was founded in 1932 by the late King Abdulaziz bin Abdulrahman Al-Saud. The country was named the 'Kingdom of Saudi Arabia', and is an Islamic state, with Arabic designated as the national language and the Holy Qur'an as its constitution.

King Abdulaziz's rule was characterized by his drive for modernization in the Kingdom. As part of his policy of putting the Kingdom on the global stage, the King established closer relations with the West, especially the United States (Al Salloum 1999). He also oversaw investment in Saudi Arabia's infrastructure, by implementing a road building program, establishing a basic communications system and improving the country's healthcare, education and agriculture sectors.

King Saud bin Abdulaziz, the eldest son of Abdulaziz, acceded to the throne upon his father's death in 1953. King Faisal bin Abdulaziz became king in 1964, and built a reputation during his reign for combining a respect for the Kingdom's traditions, while also building on his father's legacy of modernization.

Khalid bin Abdulaziz succeeded King Faisal in 1975, ruling the country at a time when the economic was developing rapidly. King Fahad bin Abdulaziz succeeded King Khalid in 1982. His rule was marked by the rapid growth of the private sector, as part of a policy to diversify the Kingdom's economic away from a historic reliance on oil revenues. The country's current leader, Abdullah bin Abdulaziz, succeeded King Fahad on August 1st 2005. He has been the Commander of the National Guard since 1962. King Abdullah plays an active role in governing the country, and has taken a leading role in shaping the country's development plans. This has resulted in significant growth in the private sector and the diversification of the country's economy. Soon after his accession to the throne, private sector growth accounted for more than a third of the country's Gross Domestic Product (GDP) (SAMA annual report, 2006).

2.3 Politics and government

Saudi Arabia is a monarchy in which power rests in the hands of the King and the Crown Prince. From the Kingdom's foundation in 1932 until 1992, Saudi Arabia was ruled without a formal, written Constitution. Despite several pledges by successive Saudi monarchs, it was only in March 1992 that King Fahad promulgated several Royal Decrees which constituted a package of constitutional and administrative reforms.

The Basic Law, adopted in 1992, declared that Saudi Arabia is an independent Islamic monarchy ruled by the sons and grandsons of King Abdul Aziz Al Saud, and that the Holy Qur'an is the constitution of the country, which is governed on the basis of Islamic law (Shari'a). There are no political parties or national elections.

The King must observe the Shari'a and retain a consensus of the Saudi royal family, religious scholars (Ulama), and other important elements in Saudi traditions and society. The Basic Law stipulates that the King alone chooses his successor, the Crown Prince. However, his choice must meet with the approval of a royal family council comprising leading members of the royal family.

The Council of Ministers is the Saudi Arabian Cabinet that is appointed by and accountable to the King. The role of the Cabinet is to advise on general policy, to manage government departments and to pass legislation which is then ratified by royal decree. The Council of Ministers is headed by the King.

During late 1992, King Fahad bin Abdul Aziz Al Saud issued three additional decrees, which established a formal framework for the government:

The Basic Law of Government was issued pursuant to Royal Decree A/90 dated March 1st 1992. This law confirmed among other things Saudi Arabia's monarchical structure and its adherence to Islam and Shari'a, and addressed the independence of the judiciary and certain fundamental rights of its citizens and residents. The second decree established and empowered the Consultative Council (Majlis Al-Shoura) to express opinions on certain matters (such as general policy of state, interpretation of laws, and adoption of international treaties) referred to it by the President of the Council of Ministers. The Consultative Council also has the right to propose laws to be promulgated by the King. The third decree covered the internal governance of the

various regions of Saudi Arabia and provided among other things for establishment of a provincial council for each province.

In 1993, another royal decree was issued, establishing new rules governing the Council of Ministers under which the Council of Ministers recommends legislation to be issued by the King. The word “law” in Saudi Arabia is understood to refer to Islamic law (in Arabic, *Shari’a*). All secular rules and regulations are subject to and interpreted in accordance with *Shari’a* precepts. *Shari’a* has four primary sources.

The first, is the *Qur’an*, which Muslims believe is the word of God delivered to God’s messenger, Prophet Mohammed. The *Qur’an* contains numerous principles and guidelines for human behavior in both secular and religious life. The second source, is “*Sunna*”. It comprises what Prophet Mohammed was reported to have said, done, or approved (*Qur’an*, 59:7). The *Sunna* expounds, elaborates and explains many of the general rules of the *Qur’an*. The third source is “*Ijma’a*”, which means the consensus of prominent scholars. If at given time in history, all reputable Islamic scholars agreed on a certain rule as being “Islamic” in response to a specific question, this consensus is treated as a binding rule of *Shari’a*. Fourth, is “*Qias*” or analogy. *Qias* is an important feature of *Shari’a* because it states that the application of the law to a specific matter should apply equally to an analogous matter, because similar cases should lead to similar results (Illuminations of Saudi Arabia Developments Achievements - Ministry of Information (1995).

2.3.1 The Consultative Council

The Consultative Council, or Majlis Ashura, is the legislature of the country. The Council has 150 members that are appointed by the king; currently six of them are women. The modernization of the Majlis Ashura was considered to be an update to

the enhancement of the council's framework and organization, designed to improve efficiency. This modernization was a measure designed to equip the Council to deal with the rapid economic development that has taken place in Saudi Arabia in recent years.

The Majlis consists of a Chairman, Vice-chairman, Secretary General, General Panel, Standing committees (which include 12 specialized committees, ad-hoc committee, sub-committees and joint committees), and support administration. The specialized committees are designed to cover all political and social affairs in the Kingdom, such as: Islamic Affairs, Judicial and Human Rights, Social Affairs, Family and Youth, Economic Affairs, Energy, Financial Affairs, Security Affairs, Educational and Scientific Research Affairs, Cultural and Information Affairs, Foreign Affairs, Administration, Human Resources, Water and Public Facilities and Services (this includes responsibility for privatization activities in the Kingdom), Transportation, Communications and Information Technology, Health and Environmental Affairs.

2.3.2 Various councils

The government has established a number of agencies to help implement economic reforms. These agencies are: the Supreme Economic Council (SEC), the Supreme Council for Petroleum and Minerals (SCPM), the General Commission for Tourism and Antiquities (GCTA), the Saudi Arabian General Investment Authority (SAGIA), the Food and Drugs Authority (FDA) and the Council of Saudi Chambers of Commerce and Industry. The only council that has direct relevance to privatization in Saudi Arabia is the Supreme Economical Council (SEC).

2.3.2.1 The Supreme Economic Council (SEC)

In August 1999, the government officially announced the formation of the Supreme Economical Council (SEC). However, the origins of this idea can be traced back to the 1980s when the oil prices witnessed major fluctuations. In order to deal with these wild fluctuations and to strategically plan the government's fiscal policies for establishing diversified sources of income to the nation, the government established the Advisory Board Council. This Advisory Board Council functioned as a think-tank to the government, to suggest effective plans that support the Kingdom's development and modernization program.

The Council's objective is to assist the Council of Ministers in carrying out its duties and to suggest effective solutions that facilitate appropriate decisions regarding economic issues such as steady economic growth, price stability, and the creation of new opportunities for economically-productive sectors and the optimal employment of the work force. Its work also covers the enhancement of capital investment and domestic savings, supporting the government's privatization program, and strengthening the ability to react effectively and flexibly to changes in the international economic environment.

The Council is chaired by the King or the Crown Prince and its include the Chairman of the General Committee of the Council of Ministers, two Ministers of State who are also members of the Council of Ministers, the Minister of Water and Electricity, the Minister of Trade and Industry, the Minister of Petroleum and Mineral Resources, the Minister of Finance, the Minister of Economy and Planning, the Minister of Labor and Social Affairs and the Governor of the Saudi Arabian Monetary Agency (The Central Bank).

The Council has an advisory board consisting of 16 selected members from different professions i.e. businessmen, economists, academics and bankers.

In 2001, the Council of Ministers entrusted the Supreme Economic Council (SEC) with responsibility for supervising the privatization program and monitoring its implementation in coordination with government agencies. SEC has, in turn, formed the Privatization Committee to delegate these responsibilities with the objective of achieving successful implementation of the privatization program.

2.3.2.2 Saudi Arabian General Investment Authority (SAGIA)

In order to carry out various economic reforms, Saudi Arabia created the Saudi Arabian General Investment Authority (SAGIA). The government entrusted SAGIA to review the country's investment environment and to suggest changes for more investor-friendly laws and policies to attract both foreign and local investors. SAGIA's general philosophy is to create a friendly investment environment to spur on the Kingdom's economic growth and yield social benefits. Also, SAGIA will help to implement governmental policy in economic diversification that will counteract the adverse effects of fluctuating oil prices on the country's revenues. SAGIA welcomes all investors who are willing to support and tailor Saudi Arabia's investment policies to promote export-oriented manufacturing activities that will expedite the diversification of the country's sources of income. SAGIA aspires to achieve a balanced strategy that will bring about socio-economic benefits and maximize the return from the "total" investments (www.sagia.gov.sa).

2.4 Saudi public enterprises and the general legal system

2.4.1 Public enterprise arrangements

Public enterprises in Saudi Arabia can be classified into three groups. Group one, are enterprises whose activities have direct relevance to the economic and social development of the country, such as the Saudi Ports Authority, the Grain Silos and Flour Mills Authority, and the Rail Road Authority. Group two consists of enterprises engaged in finance and investment, such as the Saudi Agricultural Development Fund and the Saudi Industrial Development Fund. Group three, is made up of enterprises that are responsible for education and training, including various universities and organizations for technical and vocational training.

All such government enterprises have long operated within a tight structured and defined framework of management and control (Al-Homeadan, 1996).

2.4.2 General legal system

Since the creation of Saudi Arabia, the government's core policy has been that the country is governed by Shari'a, where the government may issue regulations, provided that these do not conflict with established principles of Islamic laws. However, there is another set of regulations in force in Saudi Arabia, particularly in the areas of commercial and business law. Under the Investment Law, a foreign capital investment license is a condition precedent to any foreign investor owning shares in either an existing or a new Saudi Arabian company, irrespective of the company's activity. Such companies are required to obtain a license from the Saudi Arabian General Investment Authority (SAGIA) for investment projects. In the case of a foreign investor, an industrial license from the Ministry of Industry is also