School of Business, Economics, and IT
Division of Business Administration

Assignment, Master Thesis, 15 HE credits in Business Administration

Privatization: What we learn from failure

- A case study of Iran Air

Degree Project, Business Administration, Master
Spring term 2014

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Abstract

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This thesis was conducted to assess how the privatization of Iran Air process managed in last efforts and how should it be in right way. It increases the knowledge about privatization in Iran and the need for it. Iran air as our case study is a flag-carrier airline company that is protected by government regulations and subsidies. We try to find the reasons for failure of privatization in Iran Air and their attempt on privatization.
The method used to collect data was a qualitative methodology, consisting of semi-structured interviews with relevant managers, and knowledgeable professors and the official sites and press. In conclusion, we find that privatization is an important need for Iran Air Company and the main problems that are against Iran Air can be categorized to political, financial, and social. The effects of political connections are most pronounced in countries with high levels of corruption. Iran's level of corruption and law enforcement environment are lower than those are in developed countries. The root of financial problems of government and the company is the deficiency of liquidity to compensate the debts, but the share did not sell. The social problem arises from the uncertainty of the future of employees of going private company. Decreasing the level of corruption and increasing law enforcement in country are general solution for political problem. Preparing transparent financial statements and fair evaluation of share base price are our suggestion to Iran Air. The staff must be sure of their future. Social Security Organization and employment laws of country or any other response organization must protect them.

Keywords: privatization, privatization effects, privatization failures, airlines privatization, privatization in Iran

List of content

1. Introduction

The chapter contains a presentation of the study´s background and problem discussion. This is the basis for the study´s problem and purpose. Finally, the document definitions those are relevant to the study.

1.1 Background

“Why do governments accomplish privatization? Why do other countries never privatize at all? “(Bortolotti & Siniscalco, 2004).
Privatization is the practice of engaging the private sector in some aspect of the functions and responsibilities of government operations.

According to Nellis (1994), privatization is necessary, but it is not simply to improve the performance of public enterprises—though the evidence is striking that it can and improve performance in many countries. Privatization’s essential contributions are to “lock in the gains” achieved earlier in reforming public ownership or in preparing a firm for sale, to become less involved the firm from the political process.

England (2011) argues that the past twenty years have seen numerous instances of partisan debates over privatization, which either embrace universal ideologies, in favor or opposed to privatization as a whole. This has led to a myriad of privatization proposals that have failed to benefit the governments enacting them, and, in certain cases, have even served to harm the politicians, workforce, citizens, and service recipients in the process. While these failures have led some to believe that privatization is inherently dangerous and should therefore be avoided, others continue to support any effort to shift a public service to the private sector in order to limit the size and role of government. The fact is that privatization is rarely effective, or even possible, when either paradigm is used to examine it merits. In practice, privatization is most successful when used to ensure that government, taking into account its needs, capabilities and limitations.
Pettinger (2011) emphasizes that benefit of privatization are when a private firm is interested in making profit and so it is more likely to cut costs and be efficient. Since privatization, companies such as BT and British Airways have shown degrees of improved efficiency and higher profitability. From his point of view, political pressures rather than sound economic and business sense motivate state managers (exactly Iran’s case).

Explanation for public sector failure includes ambiguous and sometimes conflicting objectives, political interference, rotation of managers between organizations, use of unsuitable public service procedures for commercial operations, lack of competition, and existence of weak private sector, international price decisions, overstaffing, under-capitalization, and high debt/equity ratios, inadequate incentives, failure by governments to pay for services rendered etc.

Failure of privatization means that the results of privatization implementing are not the same as its goal had been set for and, does not achieve the aim for which they are implemented. It can occur in first stages and before privatization or after implementing the privatization. The initial stages are to assess the feasibility of privatization of each Parastatal scheduled for divestiture and to determine the most appropriate method, preparing the enterprise for privatization by carrying out financial, commercial, technical, and organizational appraisals and, the implementation of the divestiture. The process depends on the divestiture method selected. After these primary stages, the privatized company goes for achieving the planned aims.

The airline company “Interflug” did failure in privatization according to Shibata (1994). That company did not survive after the disappearance of the GDR government (its sponsor). Air transport in East Germany became nationalistic issue when German reunification looked certain in the late 1980s. In 1990, Lufthansa agreed to take a 26 percent stake in Interflug, in anticipation of a merger but encountered objections from the Federal Cartel Office. In the meantime, it became like airports in East Germany, once run by Interflug, and would be sold separately. At first glance, disappearance of Interflug hardly requires explanation. Yet it suggests, in a negative way, what the raison d'etre of a national airline is. When a state is taken over by another, the airline of the absorbed country would either survive as a division of the new flag carrier, be absorbed entirely in it, or be liquidated and its service taken over. If, as was true of Interflug, the airline of the absorbed country fails to operate very profitably or is thought unlikely to do so, there would be no reason for the new government to keep its operation. It must also be added that, unlike the other East European countries, unified Germany has no need to rely on its airline to earn foreign currencies. This is a kind of privatization failure is in stage of after privatization, but not such as Iran Air’s failure as we can find later.

The date of privatization in Iran backs to the law in 1975 concerning to expansion of the transfer of state owned economic sectors to the private. After the revolution event, Iran faced a great war against Iraq. It increased government role in planning and controlling the public sector. Official under the respective law decided to allocate up to 99% of the government’s ownership in non-basic industries. Meanwhile during this vital process, blue-collar worker as well as usual people shared. In fact, privatization strategy implementation for the first time according to the sub-article 32 in the first development plan was started in 1989 in Iran. The objectives of privatization plan were as follows: rising firms’ efficiency, decreasing governmental involvement in economic activities, optimizing the utilization of the national resources etc.

Government decided to sell Iran Air by share floatation in stock market. The policy of Iran Air privatization was published in the Iranian Constitution and the responsible organizations for privatization were introduced the Iranian Privatization Organization (IPO). The failure of privatization of Iran Air was in the step of offering the shares in OTC. Customers did not welcome the expensive shares. Political interference to privatization of the flag carrier airline of Iran (Iran Air) is an example of privatization failure. However, Iran air privatization failed in first stages of its process and the shares did not sell for the reasons that we searched.

There are different privatization methods each country can use, such as contracting, share floatation, public-private partnerships, *v*ouchers, franchise, grants and subsidies, asset sale, volunteerism, private donation, service shedding and deregulation. (England 2011).

Bortolotti & Siniscalco (2004), mention that the motive and decision often behind a country´s determination to privatize are the governments´ budget constraints, the role of financial markets, political majorities, legal origins, and political institutions. In practice, each country used a variety of privatization methods, with the choice of method depending on factors such as the political slant of the government, international debt, the levels of economic and institutional development, and enterprise specific factors. Bennett, Estrin & Urga (2007) believe that differences in the speed with which a different method of privatization can be implemented may lead to different growth outcomes because the breaking of the strong links between the state and enterprise management may require a sudden and dramatic shift. Furthermore, different privatization modes may have different implications for the speed with which ownership structures may evolve and become concentrated, or with which initial owners are likely to become entrenched.

Iran Air is a state owned airline company that is protected by government regulations and subsidies. Iran Air's registered capital is 3900 billion IR Rials[1] and 5% of its total shares have been preferred stocks. Since, one of the two authors of this thesis is from Iran and is familiar with the problems of a state-owned airline company; it is decided to write about privatization in Iran and Iran Air Company in particular as a case study.

Some believe that Iran's privatization model is copied from the Chinese model. They argue that in the Chinese model transferring public to private sector implements in two stages. First state-owned firms transferred to huge state-owned companies then these new owners cede their stock in the stock market. This process is referred to the Chinese Privatization (CHN, 2013).

1.2 Problem definition

There are different kinds of modes for privatization in practice; every country used their specific privatization modes, and the countries choice of modes depends on factors such as the political slant of the government, international debt, the levels of economic and institutional development, and enterprise specific factors. There is differences in the speed with which a different method of privatization and it could be implemented and it also lead to different growth outcomes because the breaking of the strong links between the state and enterprise management may require a sudden and dramatic shift. Different privatization modes can have different implications for the success or failure. Even they can have implications for the speed with which ownership structures may evolve and become concentrated, or with which initial owners are likely to become entrenched.
As it has been demonstrate in thesis, Iran Air (HOMA) is decided to be privatized for many reasons. The old assets including the aircrafts have made Iran air transportation unsafe. The age of Iran's civilian airliners is believed to be the main reason why the country has one of the worst airline safety records. According to Bozorgmehr (2013), Iranian airlines are running up debts with overseas airports and companies. The airlines struggled with liquidity problems due to a widening gap between their costs and income. Even the increase of ticket fares has not covered the rocketing fuel and maintenance costs. In addition, high inflation, which is officially 28.7 per cent but believed by many economists to be far higher, coupled with the fall of Rial – which has

[1] The Iranian currency

dropped by about 60 per cent over the past year – have also adversely affected passenger numbers.

Financing by Iran Air privatization can be a way for having a strong aviation. Privatization of Iran Air must occur alongside deregulation – i.e. policies to allow more firms to enter the industry and increase the competitiveness of the market. Increase in number of competitors can be a great improvement in efficiency. Thus, the Iran's government decided to sell the company to private sector by ceding shares. The process ran during early stages. In OTC, stock was faced with lack of interest of purchase. This stage repeated times but there were no success for that.
According to Azad (2010), there were some unsuccessful efforts to privatize Iran Air due the lack of an appropriate political-economic environment, including policymakers' sympathy toward economic liberalization, the existence of an impartial judiciary, a competitive market, and banking system, and an effective regulatory framework. Moreover, middle managers and top bureaucrats in state-owned enterprises strongly objected to the privatization plan, which would undermine their position and privileges. In addition, Iran's economy remains highly regulated, with much opportunity to protect favored firms (e.g., the recent decision to raise the already sky-high tariff on automobiles, in order to protect Iran's car manufacturers). On one hand the supportive government and on the other hand, the sanction on Iran's government makes necessary to separate the government from airlines ownership.

According to CHN (2013), it has been almost 3 years that the spreading of the wings of Iran Air (national Iranian airline) in the Iranian privatization sky has been distorted to something that is not executed properly nor is a buyer seen on the horizon. This is the fourth time that Iran Air's shares are listed on the OTC board. Yet it is not clear whether the most important airline in Iran will complete the privatization process or not.
Iran Air's shares have been listed on the OTC board three times; however, there wasn't once a potential buyer, because of either the lack of transparency in financial statements or it being overpriced.

1.3 Purpose and research questions

The final objective of this paper is to find the reason of failure of Iran Air privatization in initial stages and the suitable method to privatize this important airlines company. In this way, we need to know more about privatization in Iran and the processes are needed to successful privatization. It would be valuable to search the ways that are useful to go for privatization. Thus, we search the failure's reasons and suggest the ways for proper action.

The direct questions are:
Q1: Why did the process of privatization of Iran Air fail in the first steps?
Q2: How should Iran Air privatization process be managed?

1.4 Limitation

This thesis is focused on the privatization of Iran Air, a flag-carrier airline company of Iran as a case study. Authors identify the logic behind privatization and the suitable methods for it. In addition, the failed procedure will be followed to find the cause or causes.

As a part of the thesis some limitations have to be considered in order to restrict the analysis carried out. The privatization different methods, the factors of privatization, the effects of privatization (success / failure) are taking into consideration to derive the analysis model.
To analyze the Iran Air privatization and finding the failure causes, it is necessary to focus on the process of privatization of Iran Air and compare it with the literature has been gathered. The research does not attempt to explore the preparing stage (i.e. the brand evaluation and share pricing of the company), because of limitation of time; but instead, focus on the method used and ceding stock.

1.5 Thesis Outline

INTRODUCTION	• The chapter contains a presentation of the study´s background and problem discussion. This is the basis for the study´s problem and purpose. Finally, the document definitions those are relevant to the study.
METHODOLOGY	• This chapter explains the procedure for the performance of the study with based on the scientific approach, data collection, selection of case company and documents, analysis and source criticism. Finally discussed study reliability and validity.
LITERATURE RIVIEW	• This chapter begins with an explanation of how the collection of the theoretical material was conducted and why the theories are explained further relevant to this study. This chapter explain the concepts of “Requisite of privatization”, Privatization modes” and “The effects of privatization”. Finally in the chapter, after comprehensive discussion of the theories those are presented, explained in the model of analysis. This model chose how the study is based.
EMPIRICAL EVIDENCE	• *This chapter begins with a section empirical presents structure. Thereafter we report collected data with same structure to the analysis model.*
ANALYSIS	• *This chapter analyzes the data collected with regard to the literature review.*
CONCLUSION	• *The conclusion shows how this study purpose and research question has been answered by a subsequent discussion of how the study was performed (reflection over the realization of the study). The section concludes with suggestions for further studies*

2. Methodology

This chapter explains the procedure for the performance of the study with based on the scientific approach, data collection, selection of case company and documents, analysis and source criticism. Finally discussed study reliability and validity.

2.1 Scholarly approach

According to Saunders, Lewis, and Thornhill (2009) method chapter is the one that in it the author intend to go about achieving the research objectives and justifying the choice of method in the light of those objectives. Thus, the method section should be into two parts: research design and data collection. What the researcher perceive there are two scientific approaches, one is positivism and involves a quest for absolute knowledge. Positivism advocates the application of the methods of the natural sciences to the study of social reality and beyond (Thuren, 2007).

The second approach is called hermeneutics and a central concept in hermeneutics understands. This means that we not only perceive reality through our five minds, but also our fundamental understanding of the subject. (Thuren, 2007). In this century, hermeneutics has evolved to become a "theory of understanding in the broadest sense. It currently also relates to views of contextual theories of meaning and truth, in contrast to formalist approaches (Mendenhall, 1999).

The implementation of a research process, there are two types of approaches: qualitative and quantitative. A qualitative research (non-numerical) is derived from flexible research methodologies that stem largely from psychosocial theories and practices (Chisnall, 2004). Bryman & Bell (2011) describe establishes that theories and concepts come from data that are collected during qualitative research to give a deeper understanding of the subject. A quantitative research is a linear series of steps moving from theory to conclusions. This research is often used to collect large quantities of data to be used to analyze what people want or need, called numeric data. The answers are short in a quantitative research and therefore give no depth at all (Bryman & Bell, 2011). According to Larsen (2009), data indicated that it is measurable, it is categorized so that one can specify how many have opted respective responses. They are of a type that to count up that is a numerical value. Analysis conducted through the use of diagrams and statistics (Saunders, Lewis, and Thornhill, 2009).
The thesis is attempted to examine the privatization method that is appropriate in Iran Air Company. With a qualitative approach contributed to describe and explain how it will work and what effect privatization will give Iran Air Company. This approach offers the opportunity for a deeper understanding of how the privatization goes to of an airline company.

The choice of analysis method, allows the authors to select between inductive and deductive. Deductive theory represents the most common view of the nature of the relationship between theory and research. Authors deduce a conclusion because of what is known about privatization in Iran and the cause of its failure, and of theoretical considerations in relation to that. (Bryman & Bell, 2011).

This study is based on the scientific approach hermeneutics and inductive approach and qualitative method applied. With an inductive approach the authors have the literature review about privatization, so they can draw general conclusions from the empirical facts. All primary data that has been collected, interpreted using secondary data. This was the most appropriate approach for the study because it best promotes the purpose of the study. Firstly, we present the relevant theory for the study, then compiled the collected empirical data and then interpreted the empirical basis of the theory. When using positivism and quantitative methods, this interaction is not used and thus not applied in the study.

2.2 Investigation approach

A qualitative approach is most appropriate to create more clarity on what is in the concept of privatization in Iran Air Company. The method the authors used for this thesis is a qualitative approach since this is a literature review and case study, therefore it is a more suitable method, and it fits the purpose (acquiring deeper knowledge).This qualitative approach is appropriate when new phenomena to be investigated. With a quantitative method must be immediately rejected. Because of this study cannot be measured quantitatively, that must be interpreted and understood. The study used a qualitative research approach because the aim of the study was to examine the method of privatization Iran Air Company is to be used and in what way this method will affect the company, customers, and competitors in the country and abroad. Thus, the authors easily one related to the science approach that seeks to interpret and understand. This qualitative structure is generally intended to find out how people interpret and understand a given situation. Qualitative methods are most appropriate when the researcher do not know much about the topic of privatization in Iran Air Company that they have decided to investigate-the problem is unclear. A qualitative structure is suitable when the researcher want to be open to unexpected events that finding new impulses, through this, the researcher develop new theories of privatization in Iran Air Company (Jacobsen, 2000).

In privatization in Iran Air Company, the theoretical propositions and empirical observations should be interrelated. This means that neither ontological assumptions nor empirical observation should be focused independent from each other (Llewellyn 1993).

In this thesis the researcher used an inductive approach they started from collecting the empirical data from Iran Air Company, the researchers don´t have the knowledge about which privatization mode fit Iran Air Company. An inductive research makes a better understanding to use a suitable privatization mode by the company. According to Eisenhardt (1989), the process of building theory from this study research is a strikingly iterative one. While the researchers must focus on one part of the process at a time, the process itself involves constant iteration backward and forward between steps. In addition, this process is alive with tension between divergence into new ways of understanding the data and convergence onto a single theoretical framework. The process involves converging on construct definitions, measures and a framework for structuring the findings and finally the process described here is intimately tied with empirical evidence.

2.3 Collection of data

As Saunders, Lewis, and Thornhill (2009) describe, the collecting data is divided to use secondary data and collecting primary data through observation.
In this thesis the authors make a research study, they focus on understanding the dynamics present within single settings. Case studies can involve either single or multiple cases, and numerous levels of analysis (Yin, 1984). Moreover, case studies can

employ an embedded design, that is, multiple level of analysis within a single study (Eisenhardt, 1989). The case study design entails the detailed and intensive analysis of a single case. Case study research is concerned with the complexity and particular nature of the case in question. A case study can be a single organization, a single location, a person, or a single event (Bryman and Bell, 2011). This thesis refers to Iran Air Company as a case study.

This thesis needs to have a research design for a single case study. Data were coded by means of content analysis procedures. These procedures involved the systematic categorization of data on topics pertaining to the research. Reflection, interpretation, and analysis of the detailed notes yielded the findings reported here (Debrah &Toroitich 2005). A case study is the basis for this thesis. The most common methods used to undertake a case study is observation and interviews. The advantage of implementing a case study is that it makes it possible for the researcher concerned with the complexity and particular of the case in question. The author can focus on a specific event or phenomenon, and try to get presented the factors that influence the phenomenon in question (Bryman & Bell, 2011).

According to Eisenhardt, (1989), case studies typically combine data collection methods such as archives, interviews, questionnaires, and observations. The evidence may be qualitative (e.g. words), quantitative (e.g. numbers) or both (combine quantitative data from questionnaires and qualitative data from interviews and observations. Finally, case studies can be used to accomplish various aims: to provide description, test theory, or generate theory (Eisenhardt, 1989). Authors accomplish interviews to test theory.

In this thesis, the authors have chosen to collect the data from interviewing face to face on Skype alongside using internal bulletins, official websites, and articles about the subject. The semi-structured interview is planned to give the opportunity to the respondent to be free to show her/his information more and more.
The face-to-face contact offers the possibility to monitor responses, notice misunderstandings, or inconsistencies easier and act accordingly so that the risk of missing some important data is minimized (Riley et al, 2000).

The interviews were conducted to collect relevant primary data. Reason to make those interviews is to finding the reasons of failure of privatization in first steps for Iran Air and the suitable method to privatize this important airlines company.

Through these interviews, it can be concluded for great importance and influence on the analysis and the conclusion. For providing useful interviews, it requires a method that provides reliable and valid results. There must also be an opportunity for others to be able to review it. Data acquired by an interview to be processed and analyzed to produce a result that is the basis for the conclusions. The interviewees decide consciously what they should say and not say, and the researcher decides which data is available as the basis for its conclusions. Because of this, it is important to examine critically the mediated; interviewers can never know if they can fully trust what the interviewee says.

The authors needed to have knowledge about the government's general privatization policy and the company's internal policy. Thus, the authors have made interviews with a member of the company and a main businessperson outside the company. The internal member can explain about the information of the company and its suitable method and an external knowledgeable person can be more informed about general approach of privatization in the country. There are some more interviews with privatization specialists in universities of Iran and IPO and an ex-member of Iran Air to find more information about privatization in Iran.

The interviewees have chosen by their skills and have recommended by some people who knew the Iranian author of thesis. Some of them did not accept to interview. Some were pleased to talk about the subject; but some hardly accepted to do this. The professors of Tehran universities responded us very kindly; however, the deputy of Iran Air answered us very conservative.

The interviews were conducted with CEO Deputy of Iran Air, an ex-member of Iran Air, a private sector manager, an IPO specialist, the ex-deputy of IPO, and three professors of universities in Iran in field of business and economy. Authors set up the interviews by Skype and phone calls. All of interviews were in Persian and authors translated them into English.

2.4 Analysis methods

This investigation describes Iran Air Company privatization efforts during last 4 years, and how the company should manage if they would make a successful privatization. This study is based on a qualitative approach; the authors must have a deeper understanding of why Iran Air Company privatization has been failed in last times. Authors have collected secondary data from official websites and press websites to gain information about the process during privatization efforts. Interviews gave us information about different views inside the organization and outside it. Two of our respondents were finance and management professors. They talked about privatization in Iran. Deputy of CEO of Iran Air was another one answered us. She talked about the present situation of Iran Air privatization. The IPO specialist told us about the method is used and finally the private sector manager offered us some information about effects of privatization in Iran.
Authors tried their best to compare the acquired information and get the best result. Authors answered their research questions by composing the bulk of this analysis to interpret and translate 10 Iranian documents and conduct interviews. These interviews will also need to interpret and translate from Persian into English.

2.5 Source critique

Common to both quantitative and qualitative study of secondary data is that the authors must be critical in the selection of sources of these data. Where do this data came from, who has collected them and how credible are the sources, what errors have these sources (Jacobsen, 2000).

The sources used at this study include the documents, are recognized literature and scientific articles and interviews. The choice of literature was to take account of scientific articles on the subject of privatization and this causes credibility increase. The authors' supervisor has also given tips on relevant and known scientific articles about privatization, which is the contributing factor to the thesis subjective approach. All scientific articles used in this thesis are reviewed and published, which means that the credibility of these sources increases. Most of the documents the authors used in this study are written in other language and even the interviews are made in Persian; which

means that translations had to be done. This has given room for interpretation, which may result difference in the translations.
This thesis relies to some interviews with the deputy of CEO of Iran Air, an ex-member of Iran Air, an IPO specialist, an important private sector manager, and some economic and management university professors. They answer the semi-structured questions. The related answers transcript and translate in English. The official sites and press websites are other data sources that authors use to derive more information.
Acquiring the information from Iran Air Company as a state-owned, who is going to be a private sector company was very difficult for authors. The managers and respondents did not feel to answer freely for some restrictions. They were very careful and strict with answering the questions. Otherwise, the press only publishes the government's proponents' opinion and it was difficult to achieve the opposing views. The authors assured the interviewees that their name would not be disclosed. Actually, it was very difficult to convince them to respond the interview. Since they believed our purpose and found it interesting and safe indeed, they agreed to take part the interview. Despite all efforts, accessing to financial statements could not be possible.

2.6 Reliability and validity

According to Bryman & Bell (2011) reliability is fundamentally concerned with issues of consistency of measures. The authors have to test the stability of a measure in the test related method. Internal reliability refers to multiple indicator measures. Inter-observer consistency occurs when more than one observer is involved in activity and there is a possibility that there is a lack of consistency in their decision. According to Bryman (2011) the reliability is based of the four sub-criteria of credibility, transferability, dependability, and an opportunity to emphasize and confirm. The result of a study is credible, if it has been carried out in accordance with the rules that exist. The persons interviewed should take part of the study to confirm that what the researchers present is correctly understood. Transferability means that a full description of the database is transferable to a different environment. Reliability is to ensure that the research process is complete and available. The last sub-criterion means that the study's researchers are investigating whether acted in good faith. Personal values and theoretical orientation should not have affected the study's design or conclusions (Bryman, 2011). The credibility of the study is going to be high; everything that would be examined has also been examined.

This research involves some official sites for acquiring more information about subject. The interviewees confirmed their talks are correctly understood. We tried to give full description of the database to make it transferable to the different environments. Researchers are investigating in good faith in the acquired information. Personal values and theoretical orientation did not have affected the study's design or conclusions. The authors believe that the individual insights we obtained from different professions and occupations are valuable from a qualitative point of view. The interviews, official sites and press information lend somewhat unique perspective on the privatization in Iran Air and could prompt further, in-depth studies.

3. Literature review

In the previous chapter the authors presented the method that will be used to collect the empirical materials needed for the outline of the thesis research question. This chapter begins with an explanation of how the collection of the theoretical material was conducted and why the theories are explained further relevant to this study. This chapter explain the concepts of "Requisite of privatization", Privatization modes" and "The effects of privatization". Finally in the chapter, after comprehensive discussion of the theories those are presented, explained in the model of analysis. This model chose how the study is based.

3.1 Collection of literature review

Regarding the theoretical delineation of the background to the concept of privatization and why Iran Air Company did privatization, the privatization method available for companies that they can use and what effect may result from privatization will be explained in this chapter. The collection of theoretical material led the authors to a literature study in the field through search of scientific articles in the relevant field. This literature review was conducted through searches for articles on the University West Library's full-text databases. The keywords in the search for articles that the authors used are keywords associated to the chosen subject area such as privatization, air Company privatization, privatization modes, the effects of privatization, the objective of privatization, and evaluation of intangible assets. These keywords resulted in a large quantity of items that were more or less relevant to this study and theory. The articles that were selected for use in this study were determined by authors to define criteria quality, content, and relevance.

The authors wanted to ensure that the articles they chose could be connected with their research questions and their purpose. It was important to find articles and literature about privatization process and effects especially failures. The authors studied many literatures to find more related facts about privatization; they also used textbooks.

The authors preferred to use more articles from the credible books. But it could not possible to find suitable books. Therefore the authors found articles from library's database that collected by other students. Actually they are not as trustable as books. The most problem was about finding the advantages and disadvantages of privatization modes.

3.2 Requisites of privatization

3.2.1 Factors of privatization

Bennett & Ramanadham (1997) state, the most important factors for privatization of economy in different countries is:

The size of the public sector

This group includes more of the advanced countries of the third world such as Mexico, Chile and Argentina. The countries' systems are used to in order to be more restrictive than in industrialized countries, causing some profit maximization. Even in the government controls it is usually quite extensive, this leads to the appearance and also the development of the quasi - private sector. Privatization policy in these countries need to have with one of the core elements that liberalization and deregulation of this system. In the way they invite foreign direct investment to self-development of the local private sector's share of the state sector is higher compared to industrialized countries. Its size is in relation to the development of the capital market and legal infrastructure, opportunities to use the conventional privatization methods without compromising the viability of privatization. Privatization must be implemented by a much more unfavorable macroeconomic environment and through their tax; consequences could have adverse consequences for macroeconomic stability (Bennett & Ramanadham, 1997).

The type of government controls and the resulting scope and share of the quasi-private sector

This group includes most of the remaining less-developed countries. These countries have a high incidence of governmental controls and regulatory constraints that is favorable for a large-scale development of unproductive, rent-seeking enterprise and the great importance of the quasi-private sector. The share and the significance of the public sector also tended to be higher, especially in the banking and infrastructure, which sometimes reached the levels that are typical of the socialist countries in Europe and Asia. Capital markets and regulatory framework and supervisory system is less developed in this group (Bennett & Ramanadham, 1997).

The macroeconomic performance

The conflicting claims resulting from the restitution of property nationalized after World War II last but not least, many countries in east-central Europe and all former Soviet republics inherited from the past deep economic imbalances and had to embark on their privatization programs under adverse macroeconomic conditions. This factor called for a strong focus to be placed initially upon stabilization policy, thus effectively creating a high opportunity cost to privatization program. While the command economy imposed similar systemic and policy constraints upon each of the economies in east-central Europe now undergoing transition, they also displayed some crucial difference in the inherited conditions for privatization (Bennett & Ramanadham, 1997). According to Adams, Vernon (1999) the macroeconomic environment in which privatization takes place must also be taken into account. Recent privatizations have been motivated by philosophical or efficiency considerations. Foreign exchange crisis and depression are the setting for these privatizations. The market value of the enterprise is operating and by bargaining power of the government initiating privatization.

3.2.2 Determination to privatize

The reason behind a country´s determined to privatize, is the governments´ budget constraints, the role of financial markets, political majorities, legal origins and political institutions.

Since the time of Adam Smith, in fact, the sale of assets by the crown has been undertaken to increase efficiency and consequently, to reduce sovereign debt and deficits. The issue has not changed much. Privatization remains an important means of curbing state debt and contributes to narrowing deficits. That depends on lower interest payments on debt and because the state must no longer subsidize loss-making state-owned companies with soft budget constraints. This is the reason in history why balanced budget have become global economic orthodoxy (Bortolotti & Siniscalco, 2004).

It is also known that financial market development favors a more efficient allocation of resources because it coordinates savings and directs them to the projects with the best prospects of profitability. By doing this, it favors capital accumulation and eventually economic growth. A fundamental element of financial market development is liquidity, the ease with which traders can buy or sell shares, which is even more important than market capitalization. Stock market liquidity is also a natural candidate for the explanation of the financial success of privatization in terms of proceeds. A large and liquid stock market indeed facilitates divestiture, allowing government to maximize revenues (Bortolotti & Siniscalco, 2004).

According to Bennett & Ramanadham, (1997), the fact that governments do not always launch their privatization programmes with statements of objectives and the place of implementation, the objectives may not be clear or they may include unresolved contradictions. The objective roughly categorizes commonly stated objectives, as follows: *Political goals, efficiency goals, fiscal stabilization goals and resource mobilization goals.*

Political goals such as reducing the size of the public sector, restoring or strengthening the private sector, spreading share ownership more widely and making productive enterprises more responsive and accountable to those for whom they produce (Bennett & Ramanadham, 1997).

Politicians can influence the hiring decisions of government-owned firms to favor supporters. Theory suggests that politicians may target government programs to reward supporters with patronage. Hence, rent-seeking politicians may delay privatization in regions where their supporters are based. Privatization can significantly delay for firms with a large wage bill, suggesting that employees of firms with a large workforce may block privatization. Unlike private firm IPOs, political factors also play an important role in the privatization decision. In particular, we find that privatization is significantly delayed if a firm is located in a politically competitive constituency where the governing and opposition party alliances have won a similar share of the vote. The government also delays the privatization of firms that are located in districts where the opposition party has more voter support. These results suggest that the government acts to minimize the effects of a political backlash by delaying privatization in districts where the governing party faces more competition from the opposition. Hence, the dispersed benefits and concentrated costs of privatization appear to significantly influence the pattern of privatization sales. If political competition matters in the privatization decision, it follows that the government will prefer to delay privatization in regions where the governing and opposition parties are in a close race. The governing party may also choose to minimize the effects of a voter backlash by delaying the privatization of firms located in constituencies where the governing party does not have strong support, or where the opposition party does. Alternatively, the government may choose to reward its supporters by delaying privatization in regions where the governing party has strong support. If rent-seeking politicians obtain private benefits from controlling these firms, then any loss in these benefits following privatization may influence the decision to privatize (Dinc & Gupta, 2011).

According to Dinc & Gupta (2011), the decision to privatize is affected by firm-level financial characteristics and location-specific electoral considerations. While the benefits of privatization, such as efficiency improvements, are dispersed across the population, the costs are likely to be geographically concentrated among a small group, such as the local employees of government firms. The public too may perceive privatization negatively as an unequal transfer of public assets to private owners. This could result in a decrease in voter support for the governing party in the region where the firm is located. They also find that political factors play a major role in the decision to privatize. In particular, privatization is significantly delayed if the main operations of a firm are located in electoral districts where the opposition party alliance is stronger, and where the governing and opposition party alliances face a close race. The evidence also suggests that the private benefits that politicians obtain from controlling government-owned firms can influence the decision to privatize.

Efficiency goals are such as increasing productivity and microeconomic efficiency, the development of capital market institutions, which intermediate between savers and investors (Bennett & Ramanadham, 1997). Several arguments that have been advanced suggest that privatization can reduce the inefficiency arising from public ownership, by reducing the frequently high degree of public interference in public enterprise operations. Privatization may improve the quality of managerial decision-making. In addition, by making managers responsible to profit-seeking shareholders rather than civil servants, privatization may further improve managerial incentives to enhance the competitiveness of the firm. Privatization imposes the discipline of the financial markets, which stimulates enterprises to operate more efficiently (Al-Obaidan, 2002). According to Al-Obaidan (2002), developing countries can increase the utility of their human assets and capital stocks by approximately 45% simply by converting to market-based economies. The Government sets objectives for the sponsoring department for each privatization. The specific objectives vary but include some or all of the following: the timely transfer of the company into the private sector, maximizing sale proceeds, minimizing the costs of the privatization, widening of share ownership and the encouragement of competition and efficiency within the sector in which the privatized firm will operate. Facilitating competition to promote increases in efficiency might be viewed as a principal objective that should underlie the Government's program of privatization (Hodges, 2010).

How efficient is the privatization from a stakeholder view?
The motives and decision for governments and organizations for privatization are:
(1) Improving the financial performance of the SOE,
(2) Raising finances for government spending,
(3) Widening ownership through capital markets,
(4) Promoting competition,
(5) Improving service delivery,
(6) Reducing the influence of public sector unions,
(7) Responding to pressures by external agencies such as the International Bank of Reconstruction and Development and the World Bank.
(8) Replacing central planning with a market economy (Bishop &Thompson, 1993; Cowan, 1990; Ernst &Young, 1992; McPherson, 1987; Ramamurti, 1992; Ramanadham, 1993; Targetti, 1992).
Privatization policies as part of the transition from central planning to market economies will likely include both wealth creation and wealth redistribution motives. (De Castro et al., 1996).

Fiscal stabilization goals such as maximizing of sales, reducing the future drain of subventions and capital contributions from government revenue, increasing tax revenues from higher profits and reducing the public debt (Bennett & Ramanadham, 1997).

Resource mobilization goals are such promoting foreign investment in the country, releasing limited state resources for investment in other sectors such as education and health (Bennett & Ramanadham, 1997).

3.2.3 Evaluation

The brand asset is more difficult to be measured than the tangible assets. The method introduces the factor of Consumption-driven intensity and analyzes it mathematically. At the same time, it selects the representative OTC as the studying object, to build up the bridge between the evaluation model and consuming products brand evaluation (Wei, 2010).

According to Costa, Evangelista (2008) for enterprises of every industry, it is increasingly important to be able to measure and compare the return on investments in tangible and intangible assets, in order to enable the best possible resource allocation, particularly during a period of economic crisis. The utilization of adequate management and performance monitoring instruments is a primary requirement for the enterprise capacity in creating and maintaining long-term value for shareholders and stakeholders in today's highly competitive market. Intangible assets are the ultimate strategic sources of a firm competitive advantage. As a result, business performance nowadays depends in greater measure on an efficient management of intangibles, making the evaluation of the return on investments in intangibles a critical obstacle to turning those investments into sources of competitive advantage. Indeed, most firms have only a dim notion of what they spend on intangible assets, let alone what they receive from those investments, and, as a result, many of them either under-invest or make ineffective investments. Intangibles are the business aspect more difficult "to manage" because of the difficulty to correctly report in a financial statement their economic value and to identify their effect on the enterprise performance. A company's brand is an intangible activity of recognized value, which must be carefully managed. Excellent brands are characterized by the ability to involve their own consumers in a lasting relationship, based on trust and rich of symbolic and emotional value. This ability implicates the systematic regeneration of the growth potential of the brand, through strategic choices able to conjugate the perspective of long period with the expectations of the various stakeholders. Often the association of intangible benefits to the product can be the only way to differentiate the brand inside a category of products.

3.2.4 Pricing the IPOs

The pricing of initial public offerings (IPOs) is difficult, both because there is no observable market price prior to the offering and because many of the issuing firms have little or no operating history. If the price is too low, the issuer does not get the full advantage of its ability to raise capital. If it is priced too high, the investor would get an inferior return and consequently might reject the offering. Investors moreover, would be unwilling to purchase the offering from an investment banker with a record of overpriced offerings (Ibbotson, Sindelar & Ritter, nd.).

According to Martinez & Perron(2004), valuation is estimating the value of the company based on comparables and factors like profit margins and operating history, while the main emphasis on pricing is to determine how much the market will bear. According to this view, one could determine the fundamental value of the company, and then the factor in special market conditions to determine the ultimate price that investors will pay. The method for valuing traditional firms with a history of positive earnings and cash flows is the use of earnings or cash flow multiples. However, if the company does not have the positive earnings, the valuation obviously cannot be based on earning multiples. In this cases the firm valuation is depart from conventional wisdom, and negative cash flows are priced because they are viewed as investments. The valuation technics are the same as those taught in business school; discounted cash flow analysis, multiples of earnings, cash, and revenues relative to comparable companies in the market (Martinez & Perron, 2004).

After the fundamental valuation, the next key step is to set the price, an interactive process between managers and underwriters. For setting the initial offer price, we expected to hear that once the fundamental value of the company was calculated, the price for IPO was determined by taking into account the market demand factors (Martinez & Perron, 2004).

The last key factor to be considered in tuning the offer price would be the aggregate demand, determined in the bookbuilding process. If the demand was great, the offer price could be increased. Conversely, if demand was law, the offer price could be reduced (Martinez & Perron, 2004).

3.3 Privatization methods

3.3.1 Public Floatation of Shares

According to Berg & Berg (1997) in this method, the state sells to the general public through the stock market and other financial institutions all or a substantial part of the stock it holds in a going concern. The initial public offering (IPO) is often combined with other methods, such as the sale of shares to employees on favorable terms. The public flotation is politically appealing and has great revenue-raising potential. It allows broad ownership, which is always more popular than a sale to powerful domestic or foreign buyers. Wider stock ownership is a common objective in most privatization programs, as it was for example in the United Kingdom, Jamaica, and Chile and more recently in Germany. It also has the effect of locking in privatization actions. Most observers believe, for example, that renationalization of Chile's telecom SOE is unlikely because, as a result of mandated preferences for small investors, one-third of the shares of the major telecommunications company has passed to the general public.

Public flotation is also flexible. It allows targeting of particular groups to meet political objectives or social purposes. Thus, in some Jamaican privatizations, as in Chile and elsewhere, small buyers were given preference. In the sale of the Jamaican National Commercial Bank, for example, no investor was allowed to own more than 7.5 percent of the outstanding shares. Sale via public floatation can also contribute strongly to the development of local capital markets, as in Jamaica, where the initial privatizations increased the capitalization of traded shares by 40 percent. Conflicts of objectives are inherent in setting the offer price of shares to be sold. Governments may seek a high price to achieve its revenue objective and to avoid later charges of giving away crown jewels at fire-sale prices. The objectives of winning political and market acceptability, however, dictate a low price. But pricing shares too low not only invites later political attack, but erodes another objective of widespread popular ownership. Low-income buyers and employees tend to sell their holdings if share prices rise rapidly after initial offerings. There is also a conflict between providing financing for employee purchase of shares (installment sales) and the risk that share prices will fall. It leaves employees with net losses and debt obligations. This can be avoided by providing repurchase guarantees-buy-back arrangements that insure workers against losses. In recent floatation in Spain, Italy and Germany, all investors have been sheltered from falling share prices by such devices (Berg & Berg, 1997).

3.3.2 Contracting

Is the most common form of privatization in both debate and in practice, contracting refers to when a government enters into agreements with private vendors to provide government services. As government increases its use of contracting, it simultaneously reduces its own public-management capacity, imperiling its ability to be a smart buyer of contracted goods and services. Contracting is the most widely used form of social services privatization and has been on the rise for more than four decades. There are several consistent findings across the empirical studies examining the government-nonprofit social service contracting relationship. These include a lack of competition, administrative capacity on the part of both actors-public and nonprofit-and performance measures; poorly defined and inadequately enforced accountability mechanisms; goal divergence between policies and implementation practices and procedures; and nonprofit dependence on public funds, which can lead to mission drift, deprofessionalization, and diminished service quality. Additionally, these studies find there are equity implications for clients as a result of strains in the government-nonprofit relationship that stem from a lack of information exchange and coordination and a failure to consistently deliver coherent messages about policies, programs, requirements, and expectations from government to its contractors and clients (Van Slyke, 2003). Contracting out often result in higher costs, poorer quality of service, loss of government flexibility and accountability, corruption and social cost. Competition for contracts is more often the exception rather than the rule. Where biddings ostensibly occur, there is often collusion and, as the onslaught of political scandals on all levels of governments indicates, the system is hardly foolproof. The public eventually pays clearly for contracting out- in economic terms such as increases in prices and unemployment and social terms (Hirsch & Osbome, 2000)

3.3.3 Public-private partnerships

Partnerships between public agencies and private service vendors have seen notable growth in recent years. According to Noble (2007) a public-private partnership is taken to be a structured, mutually beneficial and collaborative relationship between a public sector entity and a private sector enterprise that focuses on the sharing of resources and goals and where its primary objective is providing a service or product. Public sector partners are deemed to be governments or government owned or controlled agencies at the federal, provincial/state or municipal level. Private sector partners can come from virtually any industry and be represented in a partnership as corporations, subsidiaries of corporations or special purpose legal entities established for the purpose of entering into a partnership. Public-private partnerships cover a full range of projects and services involving private sector resources in the delivery of services or facilities for public use. This includes outsourcing, privatization, and traditional public-private partnerships (Noble, 2007).

Government agencies favor privatization because it allows them to get out of a business that can be better run by the private sector. The reduction of the role of government in public service results in less public control in the quality and types of service. The agency can achieve its needs and goals. The private partner is able to make profits through its contacts with the public agency and various user fees. Profits come from the efficient management practices refined by the competitive market place and the public agency is freed from heavy bureaucratic regulations and initial capital costs to construct and operate the facility. Both the public and private agency gain advantages by satisfying identified mutual needs and that establishing partnerships create a collaborative advantage:
Land holdings
Access to low-cost development capital
Tax incentives
Expediting zoning and permit applications

The assets brought by a private organization are similar to what the public agency can provide for itself, the private organization can enable an agency to deliver feasible services or deliver a particular service more efficiently. The assets a private organization brings to a partnership include:
Raising capital quickly
Specialized management expertise
Reduced labor costs
Flexible processes
Shift liability risks

Some critics argue that private industry is motivated largely by profit and will not operate services for public good. It is believed that private enterprise, motivated by the need to generate profits for shareholders, has objectives that are opposite to government's goal to protect the public's well-being (Noble, 2007).

3.3.4 Other methods

Vouchers: are issued to individual public service recipients and used by those individuals to procure the services for which they qualify. The service provider receives the voucher in lieu of all or part of the cost of the service when rendered, and receive the remainder from the government. This allows the government to set the standards of service, by regulating what services they are willing to remit payment for, while allowing the service recipients to choose the provider that they prefer in the open market.4 Areas where vouchers have been utilized include food stamp programs, transportation, day care and alternative education programs such as charter schools (England, 2011)

Franchise: The state gives a private vendor privileges to act as a local monopoly within a given area. Consumers must choose if they wish to purchase service or not, but cannot choose between multiple vendors offering services. Prominent examples of franchises include toll collection and visiting nurses (England, 2011).

Grants and subsidies: The government enters into an agreement with private vendors in which they partially support or subsidize that group in order to offset the expenses of providing a particular service or services (England, 2011).

Asset sale: Governments sell or ‘cash-out’ assets -which could include infrastructural equipment, land, or other capital goods- to private companies in order to recoup a windfall gain and further expand their tax base resulting in increased revenues (England, 2011).
Volunteerism: A government relies on volunteer labor, usually through a non-profit organization, to provide labor-intensive public services (England, 2011).

Private donation: Governments rely on private donors to provide resources to assist in providing public services (England, 2011).

Service Shedding: Governments greatly reduce or completely stop offering services to allow private sector companies the opportunity to begin offering them with private resources. *Deregulation*: Governments stop regulating services they monopolize to allow private companies to begin offering the same services in order to encourage competition between the two sectors (England 2011).

3.4 The effects of privatization

3.4.1 Positive effects with implementing privatization

Market forces: Privatization will expose the country´s industries to market forces from which will flow the benefits of greater efficiency, faster growth and greater responsiveness to the wishes of the consumer, the private firm is interested in making profit, and so it is more likely to cut costs and be efficient (Sloman & Wride 2009)
The floating of shares on the stock market has allowed for improvement in the monitoring of management. Privatization has also had a positive effect on the development of stock markets. Yet, limited capacities of financial markets as well as limited administrative capabilities and political obstacles have constrained the speed of privatization (Roland, 2008).

According to D'Souza, Megginson & Nash (2007) privatization may also expose the firm to the discipline of the product market. Having to compete with other firms for customers and market share may provide the pressure required to stimulate greater efficiency and profitability, and identify competition as a major determinant of post-privatization performance improvements. Suggest that while privatization should stimulate efficiency gains in competitive environments, there is no advantage to private ownership when market power exists.
The privatization will give a greater competition in the goods market. If privatization involves splitting an industry into competing parts, the resulting competition may drive costs and prices down. It will also be greater competition for finance. After privatization, a company has to finance investment through the market. The company must issue shares or borrow from financial institutions, when it does it will be competing for funds with other companies and thus must be seen capable of using these funds profitably. Accountability to shareholders, the shareholders wants a good return on their shares and will thus put pressure on the privatized company to perform well. If the company does not make sufficient profits, the shareholders will sell their shares. The price of their shares will fall and the company will be danger of being taken over. The

market for corporate control thus provides incentives for private firms to be efficient (Sloman & Wride 2009)

Reduce government interference, in nationalized industries; the managers may frequently be required to adjust their targets for political reasons. At one time they have to keep prices low as part of a government drive against inflation. At another way, the manager must raise the price substantially in order to raise extra revenue for the government and help finance tax cut or the company will find their investment programs cut as part of a government economy drive. Privatization frees the company from these constraints and allows the company to make more rational economic decisions and plan future investments with greater certainty (Sloman & Wride 2009)
The financial tax will also be cut; the privatization issues of shares earn money directly for the government and thus reduce the amount it needs to borrow. Effectively, then the government can use the proceeds of privatization to finance tax cut. However, it could be danger, in order to raise the maximum revenue the government will want to make the industries as potentially profitable as possible. This may involve selling the company as monopolies (Sloman & Wride 2009)

3.4.2 Problems with implementing privatization

According to Roland (2008) consider the problems of managing airports. The private owners' profits are derived today largely from commissions on sales at airport stores. The longer individuals spend at the airport, the more profits are increased. Randomness in security checks making it necessary for individuals to arrive early to ensure that they catch their planes-is, to the owners, a benefit even if to both passengers and the airlines it is a huge cost. Their incentives are not well aligned.
There is a further problem when privatization occurs in ways that do not maximize government revenues are raised through distortionary taxation. Had the government continued to own the assets, they would have generated income that would have reduced the need for governments to raise distortionary taxes. Privatization results in the necessity of government to impose more distortionary taxation in the future, reducing the economy´s efficiency (Roland, 2008).
Restructuring in privatized firms has led to job losses that have been involved in all privatization deals the world over (Roland, 2008).
The process of privatization itself can also create problems for the company: Natural monopolies, the market forces arguments for privatization largely breaks down if a public monopoly is simply replaced by a private monopoly example in the case of water companies. Critics of privatization argue that a least a public-sector monopoly is not out to maximize profits and thereby exploit the consumer. The problem is that the monopoly producer in a free market could use it power to raise the prices. It could also be problems of externalities and inequality. Various industries may create substantial external benefit and may be unprofitable. Example a railway or an underground line may considerably ease congestion on the roads, thus benefiting road as well as rail user. The reason of equity that the various transport services should be subsidized in order to keep them going and or to keep their prices down (Sloman & Wride 2009)

According to De Castro et al., (1996), the choice of wealth redistribution or wealth creation has significant implications for stakeholder groups. In the case of wealth redistribution, the choice of method has implications for stakeholders and their relative claims on the firm. Stakeholders of the privatized firm will be affected differently by

privatization if they are involved with a government agency or government corporation (De Castro et al., 1996).
Facing increasing competition from foreign corporations through regional economic alliances (NAFTA, EU) and negotiated trade agreements (GATI), many SOEs are privatized to improve the firm's ability to compete internationally. For these reasons, privatized firms must be concerned with cost competitiveness, resource efficiency, and profitability (performance effectiveness) along with the transformation into a private enterprise and the ability to create an efficient, competitive firm (process effectiveness) (De Castro et al., 1996).
The stakeholder analysis of privatization demonstrated that owners, customers, and the general public stakeholders should realize both performance improvements and wealth creation (De Castro et al., 1996).
When the privatization involves transforming a government agency historically financed via government budgeting and controlled through a political hierarchy, the process effectiveness of the privatization will be low. The change required of these firms will be slow and protracted as new ways of deciding and reacting to capital and product market signals are learned. Privatization of government corporations, which receive their funding through established capital markets are, managed according to market contingencies face a much less daunting transformation (De Castro et al., 1996).
The economic development community shifted away from state-led industrial models of development towards 'institutional reform' and 'conditionality' models. As a whole, the "institutions matter" shift in academia and the policy world resulted in widespread reform, which, on net, has resulted in higher levels of economic freedom for the world. While the overall picture for the world has been generally positive for the world, no two-reform paths have been the same and the reality of reform has been disappointing in many countries. The mixed development results have led many economists and legal scholars to become interested in the different types of privatization approaches taken by different countries. In the former Soviet Union, for example, voucher privatizations were attempted while other countries reformed by directly auctioning off state-owned resources (Beaulier & Hall 2011)

As Shibata (1994) states, the ownership of the East European and ex-USSR flag carriers is still essentially governmental for its money on it. Another characteristic is a lack of deregulation as a definite policy. That is, they try to attract Western capital and expertise by the potential of market growth for international air transport. Overall, the author believes that privatization frees airlines to directly tap the international capital market. The other side of the coin is debt burden. Although governmental financial organizations in the West often extend credit in soft terms, the debt burden necessitates these airlines to enter lucrative foreign markets.
After comparing "privatization" of airlines in the Eastern Europe and ex-USSR in conclusion, Shibata (1994) finds the main reasons for privatization, i.e., budget constraints of government, scarcity of foreign exchange, and need for access to the international capital market for fleet renewal, are common with various cases in the Third World.
The impact of British Airways' privatization on U.S Airlines identified as its close competitors in international markets. That give some effect that the stock prices of these rivals fell significantly around announcements that signaled the likelihood of privatization. Further, the adverse impact of privatization announcements on the rival firms´ stock returns is proportional to the extent of their rivalry with British Airways.

That indicates that close competitors of British Airways expect to suffer due to emergence of a more efficient and aggressive British Airways after privatization.

The fall in fares is accompanied by lower cost of operation after privatization (Eckel, Eckel & Singal, 1997).

According to Eckel, Eckel & Singal (1997), the stock prices of British Airway´s competitors fell abnormally, depending on the degree to which they competed with British Airways. This indicates that privatization leads to an increase in efficiency, eroding the profitability of rival firms. Further, relative to control groups, the airfares on routes served by British Airways decreased significantly.

For Middle Eastern governments, the road to privatization has been littered with obstacles. Numerous targets have been set for handing over control from the public sector to the private. Rather fewer have actually been achieved. The obstacles have often been predictable, but sometimes less so (Talib, 1996).

According to Talib (1996) there are problems with implementing privatization perhaps fall into four broad categories - legal, attitudinal, financial and political/organizational. No country has been spared these, even Tunisia which, in the view of Ayubihas significantly outpaced neighboring Arab states in the speed of its privatization program. Tunisia's record, complaining that its privatization is "progressing at the pace of a turtle"; be that as it may, Tunis has faced many legal difficulties. The legal problem has been one of the most significant that has led to the slow trend in privatization. The Tunisian authorities have greatly hesitated before finding legal solutions and formulas suitable to apply to implementation of the privatization process". Correspondingly, the framework of labor and trade union law has provided a barrier to some of the privatizing efforts of the Egyptian government, the existing labor law means that shedding workers to facilitate a privatization, or to increase the rate of profit once privatization has occurred is extremely complicated. In a country where "expelling workers even in the case of severe transgression is very difficult", large-scale reductions in workforces are not readily contemplated. It is hardly surprising that potential investors out for quick profits can be discouraged by this.

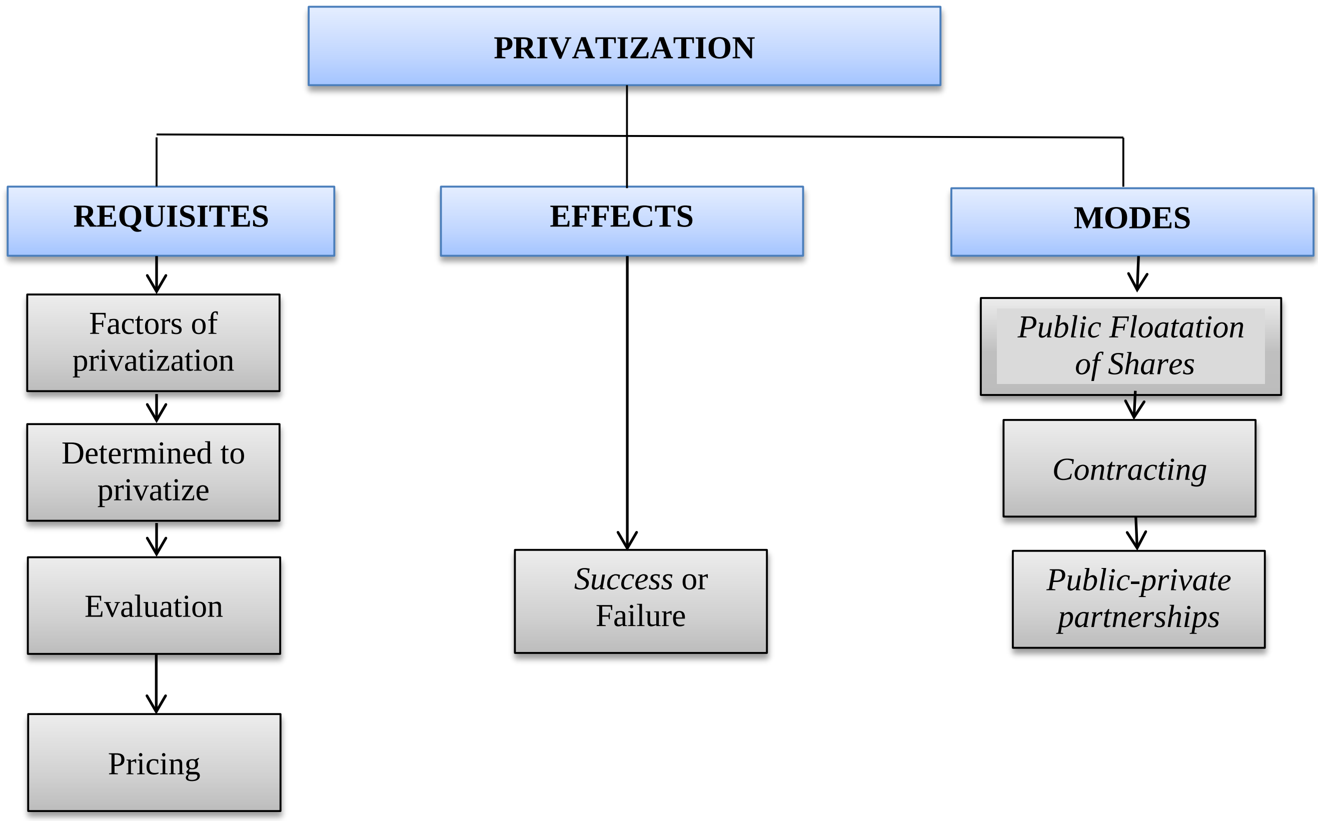
Many studies have examined how political connections influence corporate activities and performance. For example, they may affect auditor behavior firm borrowing behavior, board structure the corporate tax rate and earnings opacity (Lin, Liu & Tu, 2013).

According to Lin, Liu, Tu (2013) the role played by political connections in a given market is greatly influenced by its social, political, legal, and economic environment. Findings obtained in one country may not be generalizable to another due to the unique environments in which firms operate. The effects of political connections are most pronounced in countries with high levels of corruption. China's level of corruption and law enforcement environment are worse than those in developed countries and in most other emerging economies. China as a highly corrupt nation in which minority shareholders are often exploited by block shareholders, and confirm that minority shareholders in the Chinese capital market do not even expect regulators to enforce new rules on firms whose block shareholders have strong political connections (Lin, Liu, & Tu, 2013). The desired outcome of a public policy can easily be compromised if individuals make use of their political connections to advance their own interests at the expense of other stakeholders. National differences in social and economic systems and legal environments determine the impact of political connections on firm performance and corporate decisions (Lin, Liu, & Tu, 2013).

Powerful cadres of public sector workers and managers can feel (and be) threatened by privatization: work patterns may change, wage rates may fall, jobs may be lost, example privatization from organizations representing workers, professionals and managers in Egypt. With high-status technocrats in state enterprises continuing to see their career and personal security as being allied to the public sector alone. Among workers, of course, opposition to privatization has been much less discreet. Tunisia is an example of this, the powerful Tunisian General Union for Workers actually succeeded in having certain privatizations cancelled (Talib, 1996).
Finding the requisite capital locally to fund privatization has not always been easy. That will sees lack of entrepreneurship and the weakness of the Arab entrepreneurial class generally as a key reason for limitations of privatization. A lack of enthusiasm by entrepreneurs has been noted elsewhere exapphmple in the government policies themselves may be nurturing this in Egypt. There, the severe limits on the number of shares that large, or small, investors can buy have led some to wonder just how committed Cairo is to unpicking the public sector. Similarly, costs (and therefore risks) of share purchase are high, since would-be investors have to pay the full price of shares in one go. Such a lack of effective price-setting machinery in Egypt highlights the last area of difficulty with privatization in Arab countries. This is in the area of political will and administrative effectiveness. There has sometimes been a lack of clarity, at best, about government intentions and actions (Talib, 1996).

3.5 Model of analysis

The analysis will be done by discussing the different requisites of privatization that are relevant to our study. The factors that researchers must know about privatization in different cases, determined of privatization that is based on the government and companies to follow the objectives such as: Political goals, efficiency goals, fiscal stabilization goals and resource mobilization goals, and how privatization will affect the company and the country. The modes of privatization are found in different literatures to demonstrate the privileges and shortages of each method to select the appropriate model for Iran Air. These items make more understanding of privatization and by comparing with empirical findings; authors can answer the research questions properly. This is illustrated in figure 1.



1: Analysis model created by authors

4. Empirical evidence

This chapter begins with a section empirical presents structure. Thereafter we report collected data with same structure to the analysis model.

4.1 Structure of the empirical presentation

The empirical data is constructed according to the analysis model's concepts. Authors have collected secondary data from official websites and press websites to gain information about the process during privatization efforts. Interviews gave us information about different views inside the organization and outside it. For more reliability and more validity, official sites and press were helpful. Authors tried their best to collect together with compare the acquired information, pick the certain things out, and put them under relevant headings.
The policy of Iran Air privatization is found in the Iranian Constitution; the responsible organizations for privatization are introduced; the international association and organization that Iran Air is a member of; and the general situation of privatization in Iran up to date are the debates of first subheading. The main source for this information is the official sites.
The main reasons for Iran Air privatization is debated in second part. The press and official websites are the main reference of data here.
The process of privatization in Iran demonstrates the efforts that have been done in about five years to privatize the flag carrier of Iran, Iran Air (Homa). We tried to show the effects of every attempt for going out from state-owned situation. The main resources in this section are the press.
Privatization model in Iran argues the model of privatization that is used in Iran by the law.
Effects of privatization explain the situation of Iran Air in the way to privatization and the different barriers in it.

4.2 Privatization in Iran

4.2.1 Revision of Article 44 of the Constitution of Iran

An executive order for privatization envisaged by Article 44 of the Constitution of the I.R.Iran was issued in July 2006.
According to the action plan, the government is assigned to cede 80 percent of the shares of major state-owned enterprises to the people in order to support the targets envisioned by the 20-Year Strategy for Economic, Social, and Cultural Development. The executive order indicates that ceding 80 percent of the shares of large companies will serve to bring about economic development, social justice, and elimination of poverty.
By putting into practice the action plan, the government's role will undergo a shift from direct involvement in ownership and running the large companies to supervisory and guidance of different sectors of the economy to meet the regulations of the World Trade Organization (WTO) gradually.
Pricing of the outputs of the large companies should be made in line with the world trade regulations and a special team will be formed to monitor full implementation of the action plan on privatization.
Main objectives of the initiative:

- 80% shares and stocks of major public companies and enterprises which worth totally US$130bn. will be sold to the private and cooperative sectors.

- 10% of this amount, US$13bn. is allocated to the foreign investment.

- The role of the government will change from ownership and direct management to the macro policy making and monitoring.

- The government should contribute to the enhancement of private and cooperative sectors in the economy and wil1 create a supportive environment for their competition at the international markets.

- Preparing the domestic enterprises to be able to conduct their activities in accordance with the prudential rules and regulations of international trading system in a targeted and a sequential process.

- Developing human resources and capacities as well as necessary knowledge for best implementation and follow-up of these policies.

- Development and promotion of national standards and making the quality assessment systems compatible with the international standards in all necessary areas and fields.

- The promoting privatization with the objective of promotion of efficiency, competitiveness and expansion of private ownership (The British Iranian Chamber of Commerce, n.d)

  By the Payvand News (2008), Ministry of Road and Transportation announced that privatization will take place according to the Article 44 of the Constitution and the Iranian Privatization Organization is the responsible body for offering HOMA's shares in Tehran Stock Exchange. Iran Air (HOMA) is the flag carrier airline of Iran, based in Tehran. It operates in 20 scheduled and 5 chartered flights to 35 international and 25 domestic destinations.

4.2.2 Privatization Organization (IPO)

The Privatization Organization (IPO) has been incorporated based on Article 15 of Islamic Republic of Iran 3rd Economic, Social, and Cultural Development Plan ratified in 2000. This organization has practically commenced its activities with the new objectives and tasks since June.2001. Its entrusted tasks and duties, was appointed as a specialized holding company in order to take action for offering and sales of its own shares in sub-companies, according to the rules and regulations (Iranian Privatization Organization (website).

According to chairman and managing director of Iran Air in an interview with The Business Year (September 2012), Iran Air is Iran’s national air carrier. A merger of two companies created the airline before the revolution, and its experience goes back to about 70 years.

4.2.3 Tehran Stock Exchange (TSE)

The TSE, which first opened in 1967, is Iran's largest stock exchange. The TSE is based in Tehran. As of July 2011, 452 companies with a market capitalization of US$72 billion were listed on TSE. TSE, which is a full member of the World Federation of

Exchanges and a founding member of the Federation of Euro-Asian Stock Exchanges, has been one of the world's best performing stock exchanges in the years 2002 through 2010. TSE is an emerging or “frontier” market. The most important advantage that Iran's capital market has in comparison with other regional markets is that there are 40 industries directly involved in it. Since the Islamic Revolution, Iran has faced two structural changes; first, nationalization immediately after the revolution in 1979 and then privatization after 1980 (Mashayekhi & Mashayekh, 2008).

4.2.4 Iran OTC Market

Iran OC Market (or Fara Bourse) is a securities market, which operates under official supervision of SEO. Therefore, this market is considered an organized market that is supervised by a regulatory body. Nevertheless, the Iran OTC Market operates as self-regulatory organization similar to organized Exchanges active in Iran. The OTC Market has been formed to promote the issuance and trade of various financial instruments and remove the existing gap that inhibits the financing of industrial firms via the securities market. (FIPI, n.d)

4.2.5 Privatization to Date

According to official figures from the Iranian Privatization Organization, since 2006 some US $82,770 has been received by the Iranian government through its program of privatization, representing over 60% shares in large companies. Plans are currently underway to divest another 20% by 2015. (The British Iranian Chamber of Commerce, n.d)

4.3 Iran’s National Airlines: Iran Air the flag carrier

4.3.1 Iran Air history

Iranian Airways Company was founded in May 1944 and operated its first passenger flight right after World War II from Tehran to holy city of Mashhad. The airline also had weekly freight services to Europe and its fleet consisted of DC-3s, DC-4s, and Viscounts. Within a period of 17 years (1945-1962) the company developed into a major domestic airline with a few international flights per week. In 1954 a second private airline, Persian Air Services was formed. Initially it operated only freight services to Europe, but in 1960, it commenced passenger flights to several European destinations using leased equipment. The geographical situation of Iran with its expanding spacious levels, relative remoteness of crowded areas from each other, lack of adequate means of transportation (railways and roads), the need to initiate safe and fast connections, and lack of an orderly equipment with high capacity to revive mutual aviation rights with other countries as well as securing more welfare and comfort for Iranians led to a ratification by the board of ministers to establish a national airline corporation on February 10th, 1961. Following that, on February 24, 1961, both Iranian Airways and Pars Airways merged to form a new airline as Iran Air with the acronyms of HOMA, a griffin of Persian mythology which symbolizes the mythical Bird of Happiness. IranAir, the first airline to order and operate Boeing 747SP in the world, having the mission of obviating the domestic aviation transportation needs accompanied by observing the safety principles and forming transportation services with neighboring and countries in distance, officially commenced its activities in April 1962 (Iran Air, the airline of Islamic Republic of Iran, nd.).

4.3.2 The standards that Iran Air follows

Iran Air is a member of ICAO. The International Civil Aviation Organization (ICAO) is a UN specialized agency, created in 1944 upon the signing of the Convention on International Civil Aviation (Chicago Convention). ICAO works with the Convention's 191 Signatory States and global industry and aviation organizations to develop international Standards and Recommended Practices (SARPs) which are then used by States when they develop their legally-binding national civil aviation regulations (ICAO website).

The International Air Transport Association (IATA) is the trade association for the world's airlines. It represents some 240 airlines or more than 84% of total air traffic. IATA supports airline activity and helps formulate industry policy and standards.
Iran also uses the ECAR (EU Countries Aviation Regulations) and FAR (Federal Aviation Regulation) and does not have its own regulations.

Iran Air		
IATA **IR**	ICAO **IRA**	Callsign **IRANAIR**
Country		Iran, Islamic Republic Of
Airline Founded		1946
Main Hub / Base		Teheran - Mehrabad International (THR / OIII)
Fleet Size		48 Aircraft
Average Fleet Age *		26.1 Years
Official Website		http://www.iranair.com
http://www.planespotters.net/Airline/Iran-Air?sort=type		

4.4 Why Iran Air goes for privatization

4.4.1 Sanctions

Bozorgmehr (2011) reports, Iran Air has been battling sanctions since the 1990s, when the US stopped Tehran buying civil aircraft, spare parts and post-sale services, supposedly to stop Iran from accessing militarily useful technology. Washington went further in June this year by prohibiting any transactions with the national airline because of Iran has alleged pursuit of nuclear weapons.

4.4.2 Financial reasons

In an effort to help airlines meet their increasing costs, government allowed the country's 17 airlines to increase ticket fares by 65 per cent for domestic flights and almost double for overseas destinations. However, the increases have not covered the rocketing fuel and maintenance costs, aviation officials insist. High inflation, which is officially 28.7 per cent but believed by many economists to be far higher, coupled with the fall of Rial – which has dropped by about 60 per cent over the past year – have also adversely affected passenger numbers (Bozorgmehr,2013).

Flying fish(2012) expresses, Iran Air, with loans from the Iranian National Development Fund, is taking a radical new step in its financial future, in addition to selling off more than 50% of the company's shares, by reevaluating its domestic routes and terminating non-profitable routes. This change in internal management, route network, and ownership is a big change for the company, but likely the only change that will allow the airline to survive long into the future.

Bozorgmehr (2013) reported that on Jan.2013, the ministry refused to provide airlines with fuel until they paid off outstanding debt amounting to 7tn Rials ($285m).The dispute led to an unprecedented one-day halt in domestic flights. Aviation officials complain that the central bank, which was hit by US sanctions last year and faces difficulties in transferring hard currency into the country, has not been consistently supplying airlines with US dollars at a semi-subsidized rate (24,516 Rials) – higher than the official rate, but lower than the open market rate. As a result, Iranian airlines are running up debts with overseas airports and companies.

An ex-member of Iran Air believes that Iran Air's financial statements are not clear enough to be reliable because of the government policy. Failure of selling the shares in OTC proves their unfair evaluation of tangible and intangible assets. Iran Air believes that its brand is more valuable than other airlines in Iran, but that is not true because of its unsafe aged fleet. People prefer to fly with Mahan airline, a private company that its airplanes are newer and more modern and safer than Iran Air aircrafts even if it is more expensive.[2]

4.4.3 New management and increasing profitability

According to a private sector manager, privatization is one of the components of structural reform program and aims at achieving higher efficiency levels of firms in scope of microeconomics and achieving economic growth in macroeconomic level. Implementing the privatization policies typically will enable ground for cutting the unbridled public deficits and governmental expenses. In other words, with increasing private participation in the economy, several phenomena occur: first, from point of microeconomics, the public enterprises management, private managers who are selected by functionality will replace who are selected by governmental policies, and this will lead to improvement of firms' performance spontaneously. A public agency has to manage enterprise applications in the context of the social and political orientation of the government to be entitled to financial support from it. However, since most of this orientation is at odds with the firm's performance, loss will be achieved on it. On the other hand, when the firm is privatized the management of the department who is

[2] Interview with ex-member of Iran Air

appointed by the shareholders, well understands that if he/she continues to manage the company, he/she must have appropriate performance and leads the company to profitability. Private shareholders are well aware that lack of strong and efficient management lead to leave the industry or even bankruptcy. A public firm's management is not afraid of bankruptcy because of government protection, specially the financial protection. Otherwise a private sector firm's managers must be careful of their resources and expenses because of their responsibility against shareholders and investors. [3]

4.4.4 Other reasons

The deputy of CEO of Iran air approved that Iran Air is lossmaking, and her reasons for weak airlines in Iran are: Inefficient rules and procedures; Poor equipment and infrastructure in terms of age, capacity, and performance; Low safety level and reduce customer confidence, and sanctions.[4]

A finance professor believes that the shortages of state-owned airlines are:
Fixed tariffs reduce the motivation of effective management and service improvement;
High subsidiaries increase the government expenditures:
Low revenue of internal flights causes to transfer subsidiaries from international paths and decreasing competition in this field;
Fixed and low fares cause to decrease the efforts for more sales and advertisements and effective management;
Moreover, existence of more staff in compare with private sector.[5]

4.5 The process of privatization in Iran Air Company

In Iran, a large government with extensive control over the economy has been a reason for budget deficits, inflation, disturbance in optimal resource allocations, and unrealistic prices; as a result, the large government has made Iran unable to compete in international markets. Thus, these difficulties more than ever necessitate the process of privatization and development of the private sector in Iran. The issue of privatization and development of the private sector gains considerable importance in light of this lack and Iran's 20-year Outlook Plan as well as the Third and Fourth Development Plans which are based on interaction with the global economy, competitiveness, and knowledge-based development. Therefore, a new process of privatization has been initiated in Iran with the establishment of the privatization organization as the administrator of the process. Of course, privatization started in Iran in 1991 with the approval of the Council of Ministers who decided to transfer the shares of state-owned firms to the private sector (Mashayekhi & Mashayekh, 2008).

Iran's road and transportation minister voiced the ministry's readiness to privatize Iran Air (HOMA) airline. Talking to MNA, Mohammad Rahmati said that privatization will take place according to the Article 44 of the Constitution. The Iranian Privatization Organization is the responsible body for offering HOMA's shares in Tehran Stock Exchange, he added. Iran Air is the flag carrier airline of Iran, based in Tehran. It operates in 20 scheduled and 5-chartered flights to 35 international and 25 domestic destinations (Payvand News, 2008).

[3] Interview with a private sector manager
[4] Interview with CEO deputy of Iran Air
[5] Interview with a finance professor of the Iran's university

4.5.1 Iran to privatize national carrier Homa

Iran has added the country's national carrier Homa and its subsidiary Iran Air Tour to the list of entities to be privatized. "Homa, Iran Air Tour and the Homa Hotel Group will be privatized and there shares will be sold at the stock market [TSE]," head of the privatization organization Gholamreza Kord-Zangeneh said. "The CAO is mandated to ensure the efficient, safe, and orderly development of the country's civil aviation and will therefore not be privatized," he said. The government directly holds 35 percent of the TSE, while securing another 40 percent through pension funds and investment companies. Foreign investment accounts for only 2 percent of the stock market. Article 44 of the Iranian Constitution envisages three economic systems for the country; public, cooperative and private sector. A 2004 amendment to the article has however set in motion a ten-year plan to privatize eighty percent of Iran's state-owned assets (Press TV. 2009).

4.5.2 Tehran seeks to privatize national airline

According to Bozorgmehr (2011), Iran's government hopes to privatize Iran Air soon for more than $1.5bn to help the embattled national flag-carrier circumvent US sanctions that bar it from buying aircraft and spare parts. The airline's managing director said he expected the sale of the lossmaking airline to be pushed through within two months, although he admitted he did not know yet who the purchaser would be. The tightening of sanctions has caused the government to speed up disposal of the airline, which was first slated for sale in 2007 under a national plan to cede control of most government companies to the private sector. The Privatization Organization has put the value of 50 per cent plus one shares of Iran Air at about $1.6bn. Analysts speculate one company or a consortium of quasi state-owned companies would buy the majority stake. Iran Air has been battling sanctions since the 1990s, when the US stopped Tehran buying civil aircraft, spare parts and post-sale services, supposedly to stop the Islamic regime from accessing militarily useful technology. Washington went further in June this year by prohibiting any transactions with the national airline because of Iran has alleged pursuit of nuclear weapons. The pressure on Iran Air has increased further during the past year because it has not been able to refuel in European states, where fuel suppliers are nervous of angering the US.

Iran Air has resorted to middlemen to buy spare parts and second-hand aircraft, as have the country's 15 quasi-private airlines. This is believed to be done mainly through Turkey, but also through the United Arab Emirates, Ukraine, and central Asian states.

That process has meant that aircraft and parts cost Iran Air between 10 to 30 per cent more than market rates.

Mahan Air, Iran's second-largest airline, which is credited with the country's best flight safety record, has turned into an example of how a "private" airline can successfully skip sanctions by renting or buying Airbus aircraft, albeit at a high cost.

When privatized, Iran Air hopes to expand its domestic and international flights, with the help of loans from the National Development Fund. It will also no longer have to fly routes that are not economically viable.

4.5.3 Iran Air to Be Privatized In the Next Few Weeks

According to Flying fish (2012), Iran Air has decided on selling half of its shares, plus one additional share, to private shareholders, making the government a minority shareholder. On 19 March, the shares will be placed on the market. The shares being placed on the market are currently valued at US$1, 200,000,000.

By selling the majority of Iran Air to private shareholders, making the government a minority shareholder, the airline should be able to skirt the *Comprehensive Iran Sanctions Accountability and Divestment Act of 2010,* which was passed on the 24th of June 2010 by the U.S. House and Senate, then signed in to law on the 1st of July 2010 by President Barack Obama.
Iran Air's transition from a government owned airline, to a publicly traded airline, owned by private shareholders, should allow the airline to normalize relations with fuel providers in Europe and begin building new relationships with Boeing and Airbus for OEM support of their aircraft and the purchase of new aircraft. With the average aircraft in Iran Air's fleet pushing 22 year of age, the airline intends to reduce the average age of its fleet to 15 years or younger by 2015, then purchase 50 new aircraft over the following five years, with an additional 100 aircraft to be leased.

Iran Air, with loans from the Iranian National Development Fund, is taking a radical new step in its financial future, in addition to selling off more than 50% of the company's shares, by reevaluating its domestic routes and terminating non-profitable routes. This change in internal management, route network, and ownership is a big change for the company, but likely the only change that will allow the airline to survive long into the future. Iran Air has had an incredible aviation history; especially given the hardships they have endured and conquered, in the face of sanctions and embargoes severing their ties to aerospace industry manufacturers. It will be interesting to see what the future holds for them as they make dramatic transitions and make a bold move towards securing their future (Flying fish, 2012).

4.5.4 Iran Air to Raise $1.2 Billion over Coming Weeks through Privatization

By NYCA admin, Tehran Times reported that the government would sell 50 percent of the airline's shares plus one additional share. The airline expects to raise about $1.2 billion through the sale, which it will use to buy newer aircraft and expand routes.
Perhaps just as important as the cash infusion will be the airlines improved ability to purchase aircraft and parts. United States efforts to isolate Iran through trade sanctions include a ban on most sales of aircraft and aviation parts, a regulation that many blame for the country's increasingly dreadful safety record. Iranian carriers, whose fleets include planes dating before the US broke ties with the country in 1979, have in the past used proxies in other countries to purchase more modern aircraft, including an Airbus A310 formerly used as Germany's "Air Force One." In a Financial Times interview, Parvaresh said, "When Iran Air is privatized; our hands will be more open in dealing with sanctions and buying aero planes and spare parts." While he did not say exactly how privatization would make imports easier, it is likely Iran Air is courting foreign investors who would be able to import parts to their own country without restrictions, and then transfer them to Iran. With the aging and stagnant fleets of the nation's airlines unable to meet rising air travel demand, the Iranian government recently began allowing Qatar Airways to fly domestic routes within the country (NYCA admin, 2012).

4.5.5 Last efforts

After failure of selling Homa shares in TSE for a lump sum, the officials decided to offer the Iran Air Tour (Iran Air subsidiary) shares separately to "Iran Aircraft Employees Cooperative" a semi state company in 2010. Homa Hotels another subsidiary of Iran Air transferred to Social Security Organization in 2012. 55% of Iran Air Shares offered on OTC without any customer, once in 2011 and twice in 2012. Finally, Iran Air was suggested to transfer to Social Security Organization due to government debt. Although this transfer has not taken place so far due to disagreement between SSO and IPO. Head of CEO of Iran Air declared the process of real evaluation of its shares with new exchange rates by IPO is done in2014 and it will go to sell at OTC again (TSPO, n.d).

Unavailability of fuel: The pressure on Iran Air has increased further during the past year because it has not been able to refuel in European states, where fuel suppliers are nervous of angering the US.

Aged fleet: Iran ageing aircraft fleets and shortages of spare parts are believed to be the main reason the country's civil aviation is among the world's riskiest. More than 700 Iranian passengers have been killed in 13 aircraft crashes and other incidents over the past six years, according to the Financial Times count of local media reports.

Some of Iran Air's 52 aircraft date back to before the 1979 Islamic revolution and the fleet's average age of 21.5 years – in line with the average for all Iranian civil aircraft – is seen as too high.

More expenses: Iran Air has resorted to middlemen to buy spare parts and second-hand aircraft, as have the country's 15 quasi-private airlines. This is believed to be done mainly through Turkey, but also through the United Arab Emirates, Ukraine and central Asian states.

That process has meant that aircraft and parts cost Iran Air between 10 to 30 per cent more than market rates. Mahan Air, Iran's second-largest airline, which is credited with the country's best flight safety record, has turned into an example of how a "private" airline can successfully skip sanctions by renting or buying Airbus aircraft, albeit at a high cost (Bozorgmehr, 2011).

Iran airlines have been placed in an extremely tough situation since the 1995 implementation of Total Embargo on U.S. Dealings with Iran by U.S. President Bill Clinton. To leave such situation, Iran Air has decided on selling half of its shares, plus one additional share, to private shareholders, making the government a minority shareholder. By this solution, the airline should be able to skirt the *Comprehensive Iran Sanctions Accountability and Divestment Act of 2010*, which was passed on June 24, 2010 by the U.S. House and Senate, then signed in to law on July 1, 2010 by President Barack Obama (Flyingfish, 2012).

With the average aircraft in Iran Air's fleet pushing 26 year of age, the airline intends to reduce the average age of its fleet to 15 years or younger by 2015, then purchase 50 new aircraft over the following five years, with an additional 100 aircraft to be leased (Flyingfish, 2012).

4.6 Privatization model in Iran

According to CHN (2013), Privatization, as an economic policy, is based on the idea that private ownership and administration as opposed to public, in terms of resource allocation, is more cost efficient. As a general concept, privatization reduces the

government's activities or eliminates all of them. The specific meaning of privatization is to transfer governmental ownership to the private sector. General reasons for privatization are to decrease governmental responsibilities and its administrative roles as well as the financial burden on state budget.
CHN (2013) argues that one possible way to achieve the first goal is to transfer the administration of state-owned industries to the private sector through the selling of more than half of their shares. The second goal is fulfilled by ceding the non-profitable or loss making companies to the private sector. Hence; state-run companies will be run by private ones. In other words, it is not necessary to sell all state shares in order to privatize, yet, a significant change in the administration of such companies will be acquired. Some believe that Iran's privatization approach is derived from the Chinese one. They argue that in the Chinese version, transferring the public sector to the private one takes place in two stages. In the first, state-owned enterprises are transferred to huge state-owned companies and then these new owners cede their stock in the stock market. This process is referred to as Chinese Privatization. Economically, these large companies have enough resources and capital, thus, it is reasonable to expect them to be potential buyers.
However, is this Chinese approach to privatization tried and tested, as we know it? A university professor argues that this approach is not comparable to any other in the world. The fact is that Iran's condition is too different from China's for adopting such an approach. Therefore, in China such business opportunities are created for free trade and prepare free zones for foreign investments near its borders. However, in Iran there is no such free market to attract foreign investors. Thus, the Chinese model of privatization cannot be adopted in Iran.[6]
Another university professor believes that parastatal[7] companies on behalf of the government circumvent the law and seize the new managerial positions without any change in ownership. He believes that this is by no means a Chinese approach to privatization.
In China, the quasi-governmental companies are able to make deals with foreign investors by using market trade rules, in a free market or even in free zones, without any interference from the government. He adds that he doesn't recognize the Chinese approach for privatization as a suitable model for Iran. Although in Iran it is executed in two stages, in no way is it similar to the Chinese type. The Chinese version is unique and is executed in free trade areas solely to attract foreign investors, whilst in Iran; the quasi-state aspect is adopted without any actual strategy to implement it.[8]

One IPO specialist does not validate such comparison. He believes that the process and the existence of parastatal companies in Iran are legally legitimate.
Parastatal companies such as Civil Servant pension Fund (CSPF) or Social Security Organization have enough means to buy shares from the stock market. Thus transferring the state-owned enterprises to such companies is economically permissible. Subsequently, the next step can be ceding the shares to the private sector by such parastatal companies. Thus, the concept of transferring ownership to other companies cannot be compared with the Chinese approach because it is commensurate with Iranian laws.[9]

[6] Interview with the University professor of Tehran
[7] A company or agency owned or controlled wholly or partly by the government(Free dictionary by Farlex, n.d)
[8] Interview with the University professor of Tehran
[9] Interview with IPO specialist

4.7 The effect of privatization for Iran Air Company-success or failure

According to CHN (2013), it has been almost 3 years that the spreading of the wings of Iran Air (national Iranian airline) in the Iranian privatization sky has been distorted to something that is not executed properly nor is a buyer seen on the horizon. This is the fourth time that Iran Air's shares are listed on the OTC board. Yet it is not clear whether the most important airline in Iran will complete the privatization process or not.

The effort to sell Iran Air has been in process for 2 years now. Even though, this is a suitable alternative for Iran Air, it seems quit a task to perform. Some experts believe that it should remain state-owned. Others strongly believe that only the beneficiaries of such situation are pro a state ownership of the airline.

Iran Air's shares have been listed on the OTC board three times; however there wasn't once a potential buyer, because of either the lack of transparency in financial statements or it being overpriced.

First listing occurred in October 2011when 55% of its shares were put on the stock market. At that time no one was interested. Then in January 2012, with a slight change of policy, Iran Air was listed as a package of 50% plus 1 share. Then again it failed to attract any buyers for the second time. Last year for the third time, it was listed with the exact conditions as its second attempt. Unsurprisingly it fell short once more.

After the third failure, the ownership of Iran Air was transferred to the state-owned Social Security Organization, still with the hope of privatizing it one day (CHN, 2013).

Ex-deputy of IPO, in an interview, stated Iran Air has to be privatized. Moreover, OTC has different markets where the shares of any kind of enterprise can be found thus, even the loss-makers such as Iran Air may be placed for sale. He added that prior to the ownership transfer of Iran Air some issues must be resolved, such as an ample of employees or the problems it still has in its pension fund. When asked about the existence of a potential buyer, he replied there were Turkish and Qatari investors at the time but the number of employees was an issue. We didn't want so many layoffs one day.

He emphasized that the only option for Iran Air is privatization. It has 7000 employees and is responsible for 32% of Iran's air transportation, however, for example Mahan Air (a private Iranian airline) has a work force of 800 to 1000 and has 35% of the market, yet it is clear that in terms of service and other important factors Mahan Air can by no means be compared to Iran Air.

He, who is an expert in privatization in Iran, believes that regarding the experts that think Iran Air should remain a state-owned brand as a role model for other companies, have more or less some personal interests. Comparing Iran Air and Mahan Air, it can be clearly seen that Iran Air's problems are rooted in it being state-owned.[10]

[10] Interview with ex-deputy Of IPO

5 Analysis

This chapter analyzes the data collected with regard to the literature review.

5.1 The reason of failure of privatization at first steps

Privatization is an ownership transfer from a public sector to a private one. In Iran, privatization has been done as a policy in almost last 40 years with some rise and fall. According to theories, the privatization is a need for countries to provide a free market to be able to compete in international markets. By the literature review, we would find the importance and advantages of privatization, though the implementation of privatization in each country is different.

Some of the most important factors for privatization of economy in countries such as Iran are: The size of the public sector, and the type of government controls.

The size of public sector is an element of privatization in advanced countries of the third world. Even the government controls is usually quite extensive, this leads to the appearance and the development of the quasi - private sector. Privatization policy in these countries needs to have one of the core elements that liberalization and deregulation of this system. Iran is placed in this category. Although in Iran, the political problems are the obstacles for liberalization and deregulation. The tendency of sovereignty and control over the financial resources in Iran's government makes it tough in liberalization. In Iran, a large government with huge control over the economy has been a reason for budget deficits, inflation, unfair allocations, and unrealistic prices; so, the government has made Iran unable to compete in international markets. Thus, these difficulties more than ever necessitate the process of privatization and development of the private sector in Iran.
The powerful cadres of public sector workers and managers can feel (and be) threatened by privatization: work patterns may change, wage rates may fall, and jobs may be lost. With high-status technocrats in state enterprises continuing to see their career and personal security as being allied to the public sector alone. Among workers, of course, opposition to privatization has been much less discreet. In the interviews, we noticed the worrisome between workers and middle managers of Iran Air as well. This worrisome and unwillingness to privatization makes process less speedy, and leads to the slow trend in privatization.

There are four types of problems with implementing privatization: legal, attitudinal, financial, and political/organizational.
The legal problem almost in Iran has been solved by the offering the constitution and article 44. This legislation refers to an executive order for privatization envisaged by Article 44 of the Iranian Constitution.
The political role of connections in a given market is greatly influenced by its social, political, legal, and economic environment. Findings obtained in one country may not be generalizable to another due to the unique environments in which firms operate. The effects of political connections are most pronounced in countries with high levels of corruption. Iran's level of corruption and law enforcement environment are lower than those in developed countries. Thus, the privatization in Iran faces with political problems. The disagreement with privatization in a group of opponents is resulted by politic tendencies. Politicians can influence the hiring decisions of government-owned firms to favor supporters. Theory suggests that politicians may target government programs to reward supporters with patronage. Hence, rent-seeking politicians may

delay privatization in regions where their supporters are based (especially in Iran Air). As in empirical findings have been told, some have benefits in Iran Air remaining public, and do not agree with privatization. Proponents of Iran Air privatization strongly believe that, the minor opponents are benefited from state-owned remaining. Also, we agree -as we mentioned in background- there were some unsuccessful efforts to privatize due the lack of an appropriate political-economic environment, including policymakers' sympathy toward economic liberalization, the existence of an impartial judiciary, a competitive market, and banking system, and an effective regulatory framework. Moreover, middle managers and top bureaucrats in state-owned enterprises strongly objected to the privatization plan, which would undermine their position and privileges.

The financial problems that Iran air has on the way of implementing the privatization, makes them far from reaching it. Iran Air has been battling sanctions since the 1990s, thus they are faced to problems like unavailability of fuel, aged fleet, and more expenses resulting black markets or middlemen to buy necessary things.

Iranian companies are influenced by government controls and regulatory constraints; this necessitates further privatization. Actually, the government has some reasons for privatization as well. Budget constraints, the role of financial markets, political majorities, legal origins, and political institutions are the causes of tending to privatization. Government need to raise its liquidity by selling the state-owned companies. For this reason, it needs to evaluate the companies. The Iran Privatization Organization (IPO) has the responsibility of evaluation of the tangible and intangible assets as well.

Although Iran Air is a well-known and flag Carrier Company, the price of shares had not been welcome at OTC. To follow the interviews and press indicates to the unfair evaluation and non-transparent financial statements. In fact, the unfair evaluation causes over pricing the shares. Therefore, the customers do not tend to buy the shares. Obviously, Iran Air is a lossmaking company. Moreover, we know that wealth creation has significant implications for stakeholder groups. Thus, Iran Air should not expect the customers' welcome. To succeed to sell the shares, they must be evaluated fairly. After the fundamental valuation, the next key step is to set the price, an interactive process between managers and IPO (Iranian Privatization Organization). For setting the initial offer price, the market demand factors should be considered. The aggregate demand is an important factor of success to sell the shares. Otherwise, as it was seen, can be a failure.

5.2 How Iran Air should manage the privatization?

Privatization should not suppose to make more profit by increasing the prices, but by redeployment the assets in the economy and using them more efficiently. Consequently, privatization should lead to a permanent increase in the level of aggregate output, if not in its rate of growth, and be welfare enhancing. In fact, many governments have also seen privatization campaigns as a source of budgetary revenue. The macroeconomic effects must be considered as well. The long run benefits for shareholders and government are very important.

In despite, a private firm has pressure from shareholders to perform efficiently, and if the firm is inefficient then the firm could be subject to a takeover. The old assets including the aircrafts have made Iran air transportation unsafe. The aged fleet that makes it one of the worst airline safety records, running up debts with overseas airports and companies that makes it less liquidity; due to a widening gap between their costs and income, caused inefficiency of Iran Air;. In addition, high inflation, which is officially 28.7 per cent but believed by many economists to be far higher, coupled with the fall of Rial – which has dropped by about 60 per cent over the past year – have also adversely affected passenger numbers. Financing by Iran Air privatization can be a way for having a strong aviation. The privatization of Iran Air must occur alongside deregulation. Otherwise, the process of privatization itself can also create problems for the company: Natural monopolies, the market forces arguments for privatization largely break down if a public monopoly is simply replaced by a private monopoly. Critics of privatization argue that at least a public-sector monopoly is not out to maximize profits and thereby exploit the consumer. The problem is that the monopoly producer in a free market could use it power to raise the prices. The managers who are involved with privatization must be careful to prevent from making a monopoly in Iran Air. By privatization of Iran Air monopolies may occur without deregulation. Thus, policies should allow more firms to enter the industry and increase the competitiveness of the market. Increase in competition can be the greatest spur to improvements in efficiency.

Iran Air's transition from a government owned airline, to a publicly traded airline, owned by private shareholders, should allow the airline to normalize relations with fuel providers in Europe and begin building new relationships with Boeing and Airbus for OEM support of their aircraft and the purchase of new aircraft.

The method of privatization in case of Iran Air is a two-stage method (named Chinese method). In first stage, it transferred to a state-owned/quasi state-owned company due to compensation of government debts to that company. The second stage refers to selling the shares in TSE.

However, if one assumes that the Chinese privatization approach has been implemented in the privatization process of Iran, the question is whether it corresponds with Iran's economic structure or not. The Chinese approach is regulated and implemented to attract foreign investors; however, its equivalent in Iran creates an incentive for the private sector to be keenly involved in the country's economic activities. Yet the increase of motivation only occurs when governmental ownership is transferred completely to the private sector. However, experience has shown that this transfer does not change a thing. It is clear that the transferring of ownership to quasi-governmental companies is not the solution. A privatization strategy that completely hands over the sole ownership of the state-owned companies to the private sector is the only feasible solution. In addition, this mutual transfer is time consuming and wasting money. Thus, a policy that pursues the maintaining of state administration of quasi-state-owned companies will not help the process of privatization in Iran. Chinese leaders with their socialistic ideas have designed their own model with free market zones to attract foreign investment, in which the parastatals act, on behalf of the government, whereas in Iran it has to be formulated in accordance with Article 44 of the Iranian constitution. Consequently, the Chinese approach is not compatible with Iran's economy. Some experts believe that Iranian lawmakers should design an approach that suits the economic, cultural, and social conditions of Iran, instead of developing such an unsuitable approach that increases uncertainties.

Public-private partnerships method in general cannot be a suitable procedure for partnerships between public agencies and private service vendors in Iran. A public-private partnership is considered to be a structured, mutually beneficial and collaborative relationship between a public sector entity and a private sector enterprise that focuses on the sharing of resources and goals and where its primary objective is providing a service or product. But, in Iran the tendency of government to sovereignty over all aspects of financial sources causes the consistent management and it is the reason of not changing the policy of enterprise and unsuccessful privatization.

Contracting is another form of privatization. Contracting refers to when a government enters into agreements with private vendors to provide government services. As government increases its use of contracting, it simultaneously reduces its own public-management capacity, imperiling its ability to be a smart buyer of contracted goods and services. Although contracting is the most widely used form of social services privatization, but in Iran it has not been implemented for the policy of government and its tendency to manage the companies by itself.
In public floatation of shares method, the state sells to the general public through the stock market and other financial institutions all or a substantial part of the stock it holds in a going concern. In Iran this method is eligible by the low and is the most suitable method of privatization. The initial public offering (IPO) is often combined with other methods, such as the sale of shares to employees on favorable terms. This kind of share selling (installment shares) is common in Iran alongside with share floatation. The public flotation is politically appealing and has great revenue-raising potential.
The utilization of competent management is an important necessity for the enterprise capacity in creating and maintaining long-term value for shareholders and stakeholders in competitive market. With increasing private sectors the public enterprises management, who are selected by state policies, will be replaced by private managers who are selected by sufficiency. Therefore, the share floatation method is suitable for Iran Air, when that majority sector moved from public to private. It means that the government must not have the major part of shares. Otherwise, the management will remain governmental and it does not make any difference.

Financial market development favors a more efficient allocation of resources because it coordinates savings and directs them to the projects with the best prospects of profitability. By doing this, it favors capital accumulation and eventually economic growth. A fundamental element of financial market development is liquidity, the ease with which traders can buy or sell shares, which is even more important than market capitalization. Stock market liquidity is also a natural candidate for the explanation of the financial success of privatization in terms of proceeds. A large and liquid stock market indeed facilitates divestiture, allowing government to maximize revenues. As a result, privatization, as an economic policy, in Iran, is based on the idea that private ownership and administration as opposed to public, in terms of resource allocation, is more cost efficient. Thus, a financial market development makes Iran stronger to face the economic problems and improvement and appreciating the TSE (Tehran Stock Exchange) must be mentioned and considered.

6. Conclusion

This chapter presents the conclusions that the authors have come up with. The conclusion shows how this study purpose and research question has been answered by a subsequent discussion of how the study was performed (reflection over the realization of the study). The section concludes with suggestions for further studies

6.1 Conclusion

Privatization has been done as a policy in almost last 40 years in Iran. Privatization is a need for countries to provide a free market to be able to compete in international markets and especially for Iran to join the WTO.

The size of public sector is an element of privatization. As Iran Air is the most important airline of Iran, its privatization has a huge effect on Iran's economy. Transferring its ownership from public to private has many subsequences for government and the company.

In addition, the government controls are usually quite extensive; this leads to the appearance and the development of the quasi - private sector. Privatization policy in Iran needs to have one of the core elements that liberalization and deregulation of this system but the political problems are the obstacles for liberalization and deregulation. The tendency of sovereignty and control over the financial resources in Iran's government makes it tough in liberalization. In Iran, a large government with huge control over the economy has been a reason for budget deficits, inflation, unfair allocations, and unrealistic prices and the failure of privatization as well.

Whereas it has been almost 3 years that the spreading of the wings of Iran Air (national Iranian airline) in the Iranian privatization sky has been distorted to something that is not executed properly nor is a buyer seen on the horizon; the problem of failure is exactly obvious. This is the fourth time that Iran Air's shares are listed on the OTC board. Yet it is not clear whether the most important airline in Iran will complete the privatization process or not. As Iran Air is the most important airline company and the flag carrier of Iran, its problem depends directly to the government.

The problems that are against Iran Air can be categorized to political, financial, and social.

The role of political connections in a given market is greatly influenced by its social, political, legal, and economic environment. Findings obtained in one country may not be generalizable to another due to the unique environments in which firms operate. The effects of political connections are most pronounced in countries with high levels of corruption. Iran's level of corruption and law enforcement environment are lower than those are in developed countries.

The root of financial problems of government and the company is the deficiency of liquidity to compensate the debts. Thus, government needs to raise its liquidity by selling the state- owned companies such as Iran Air. For this reason, it needs to evaluate the company. The Iran Privatization Organization (IPO) has the responsibility of evaluation of the tangible and intangible assets as well. Due to unclear financial statements and unfair evaluation lead to unsuccessful sale of shares. Preparing transparent financial statements and fair evaluation of share base price are our suggestion to Iran Air.

The social problem arises from the uncertainty of the future of employees of going private company. They are not sure about their stability on occupation and salary. We

mention respecting the workers right by setting the supporting rules for them. They must be sure of their job security after privatization. Social Security Organization and employment laws of country or any other response organization must protect them.
The process of privatization of Iran Air itself can also create problems for the company; Natural monopolies, the market forces arguments for privatization largely breaks down if a public monopoly is simply replaced by a private monopoly. Critics of privatization argue that at least a public-sector monopoly is not out to maximize profits and thereby exploit the consumer and can lead to raise the prices. The authors suggest that policies should allow more firms to enter the industry and increase the competitiveness of the market. Increase in competition can be the greatest spur to improvements in efficiency.

In Iran, lawmakers should design an approach that suits the economic, cultural, and social conditions of Iran. We consider public share floatation method an eligible and suitable method of privatization in Iran. The initial public offering (IPO) is often combined with other methods, such as the sale of shares to employees on favorable terms. This kind of share selling (installment shares) is common in Iran alongside with share floatation. The public flotation is politically appealing and has great revenue-raising potential. The implementation of this method is in objective orientation of Iran Air and government, too.

The utilization of efficient management is an important necessity for the enterprise capacity in creating and maintaining long-term value for shareholders and stakeholders in competitive market. Thus, a private Iran Air with skilled management (no government elected managers) can achieve the long-term goals of stakeholders and shareholders. It can be a macroeconomic effect of privatization in the company, with long time and valuable achievement. Privatization, as an economic policy, in Iran Air, is based on the idea that private ownership and administration as opposed to public, in terms of resource allocation, is more cost efficient. To achieve the goal, appropriate pricing of initial shares of Iran Air is a necessary step alongside other steps.
The final reason of failure to sell in the stock market is the unfair evaluation and non-transparent financial statements. In fact, the unfair evaluation causes over pricing the shares. Therefore, the customers do not tend to buy the shares. To succeed to sell the shares, they must be evaluated fairly. After the fundamental valuation, the next key step is to set the price, an interactive process between managers and IPO (Iranian Privatization Organization). For setting the initial offer price, the market demand factors should be considered. The aggregate demand is an important factor of success to sell the shares.
Iran Air’s transition from a government owned airline, to a publicly traded airline, owned by private shareholders, should allow the airline to normalize relations with fuel providers in Europe and begin building new relationships with aircraft sellers.
Iran Air can manage the privatization not only by making more profit but also by redeployment the assets and privatization should lead to a permanent increase in the level of services, if not in its rate of growth, and be welfare enhancing.

6.2 Reflection over the realization of the study

Findings obtained in one country may not be generalizable to another due to the unique environments in which firms operate. Particularly, the different political environment in Iran is a big reason for different realization.

In practice, interpretations of documents and interviews were time consuming and the main difficulty in this study was the proper translation of text from Persian to English. Most of those who were interviewed in this study were perceived as accommodating and they saw the interview very positive and rewarding. However, unfortunately, some of the respondents were less accommodating from others. If they had been more accommodating, their answer had given us the additional perspective of the received responses. Implementation of this survey and its results are generally very good and rewarding. This study has set out a clear picture of the problem of privatization in Iran and Iran Air by the authors.

6.3 Suggestions for continued studies

During this study, we found the deficiency of knowledge about brand evaluation and share pricing. In fact, research about evaluating and pricing the initial public offering shares or stock market launch will be an interesting research to continue the current research. We understood that valuation and pricing are related but deal with different issues. Valuation is estimating the value of company based on comparatives and factors like profit margins, and operating history, while the main emphasis with pricing is to determine how much the market will bear. Thus, one would determine the fundamental value of the company and then factor in special market conditions to determine the price the customer will pay. Therefore, that’s noticeable to acquire more knowledge about evaluation particularly brand asset in Iran Air and moreover, how the pricing decision is made and what the factors influenced the initial price is.

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Appendix

Questions for case study interviews:

- Occupation of respondent relating to Privatization;

- Any information about Iran Air owner ship and the reason of privatization approach;

- What are the regulatory approvals about privatization in Iran and Iran Air?

- Why is Iran Air still government-owned while privatization had been promising a few years ago?

- What are the consequences of Iran Air privatization to the company, community, and country? What about the employees' future?

- What is the employees' reaction to privatization?

- Who and how are the shares valued and priced?

- Which privatization method is suitable for Iran Air, which method is chosen by the decision makers and why?

- What are the unique characteristics of Iran Air?

- In your opinion, what administration and management changes are needed after privatization of the Iran Air?

- Any other useful information that should be applied and I did not get it.