

Name

Professor

Course

Date

Part One: Analysis of the Case Study

Approach 1: The Case for Privatization

Introduction

State owned organization in some extent can be encouraged to privatize. This is because of the benefits that this economic approach has on the organization. Some of the benefits the company enjoys from privatizations includes;

Increased competition

On her work Cooper (2014) argued that, privatization exposes companies to the market forces such as the forces of demand and supply. This is very beneficial to consumers as they get the chance to make choices of product the consume wants. Also, it helps to reduce the prices as an effect from the gains arising from privatized company. With breaking state monopoly, it would allow consumers to choose from a wide range of companies in the industry. This will make company to generate increased profit in the process of responding to consumer demand (Cooper 2014). Once the monopoly is broken, other businesses in the industry will have to streamline their production by producing quality goods at affordable prices. This helps the said

company in order to catch up with the growing competition in the industry and avoid going into liquidation.

Reductions in government borrowing

Business activities of a state owned business is limited to the government legislation such as constraints on financial freedom. Therefore the business may not be able to raise enough capital as the government will always want to avoid the growth of public expenditures.

Privatization process will disassociate the business from the government and will allow the business to make independent decision of raising investment capital. As a result there will be an increase in efficiency and lower the commodity prices.

Reduces government control

On their work Liu and Tao (2018) stated that, for the company to be able to exploit freely the market, government control should be reduced. To reduce the political influence on state owned businesses and allow the business to diversify, privatization will be a necessary option. This will help to allow the organization exploit international market and expand its market niche. By business taking advantages of available market, will increase business revenue in the long-run (Liu, Tao, et al, 2018).

Fosters discipline of capital market

Privatization increases corporate governance as a competitive edge advantage in leading a corporate or business into a successful venture. Therefore, mega tires may be at an advantaged position by going private

Approach: Case against Privatization

Despite the above positive beneficial impact on businesses that result from the business going private, we cannot just assume that privatization process will benefit the business positively as privatization comes with strenuous effects on the business. Therefore, the mega tires may not have a soft landing ground by considering going private as the following scenarios may occur.

Losing economies of scale

Economies of scale is that point at which the business is able to produce more goods or services at an affordable price. This is the point in which the organization will earn more revenues since they can be able to produce goods or services at a lesser cost and can sell them relatively cheap thus increasing consumer demand due to affordability of the organization's goods or services (Kucheryavyy, et al, 2016). Since mega tires enjoys great market share, going private may cause the organization cost of production to increase. This causes the business to increase the prices of its tires in order to meet the cost of operation and get the desired profit. In return, at the end it leads to decreased demand for mega tires which result to reduced revenues.

Natural monopolies verses private monopolies

Some of the state owned businesses have always faced stiff competition. Some competition are such severe that going private may not serve the business any importance as mean of creating competitiveness. However, it may cause the business share price to decrease as a result of uncertainty of investors in the event that the business goes private.

Short termism

On the research which was conducted by Landika et al (2020) stated that, business privatization may prove the only way of creating competitive edge in any industry. And introducing forces of demand and supply in the market with increased efficiency and high revenues. However, this might be at the expense of the long-term benefit of the organization as a state owned. Mega tire might experience a short profit period at the expense of long term benefits and revenues by going private (Ladika, Tomislav, and Zacharias Sautner, 2020).

Difficulties in introduction of monopoly

Thinking that privatization will create monopoly is a wrong believe due to unprecedented pressure that newly privatized organization may undergo in their new form. Technical changes in the industry have created new opportunities for new entrants which significantly erode the industry dominants. Thus making monopoly hard to achieve for the newly privatized businesses as a result of oligopoly market/industry

Recommendation

Game theory as a basis of decision making

Having done contrasting analysis using the privatization economic tool, mega tires going private may be a challenging decision and process and thus uncertain. Therefore, remaining a state owned business is important as it will enjoy long term profits. Its current monopolistic state and the customer base (great demand) it is enjoying right now. Interaction of the approaches as a basis of making decisive move for any company is that, one should choose either case for or case against going private with the help of game theory (interaction of approaches) such as the two cases above. From the analysis, the firm decisive move is case against privatization and therefore, Mega tires should remain a state owned entity.

Part Two: Cover Letter

Name of the student,

Students address,

State.

1st April 2020.

To,

McNeill,

Mega Tire Company.

Dear Sir.

RE: Case for and Case against Privatization Approaches

Introduction

Many state owned organizations have undergone economic restructure by changing the ownership from the hands of the state to the hands of individual. In other words, the corporation changes from being owned to privately owned business. For any business to achieve this economic reform, economic analytical model and approaches of case for and case against privatization is employed. Case for privatization approach is an economic tool which is used to analyze the importance and benefits derived from having a company privatized. While the case

against privatization approach analyses the negative impact the restructuring may cause to the business. Decisive approach in your Mega tire consideration will be based on the two analytical approached that will be advised on this later. However, according to my research, I believe privatization is good thing to the country and individuals. Some of the factors which support the above statement include increase flexibility. An increase in flexibility involves meeting the company's needs. In many cases, officials or management can replace the private firm if it isn't meeting contracts standards. One factor which promotes privatization is improved service quality. There is a number of research which indicates that public official services quality is much better after privatization than before. The research continues to highlight that out of 89 cities on which the research was conducted, 63 percent agreed with this. The competition is also reduced to some extent. This means that privatization reduces the competition in the market thus making the mother company to make a good profit from the market.

Work Cited

- Cooper, Michael N., et al. "Analysis of the Microsurgery Match from 2014 to 2018 Reveals Increased Competition for Microsurgery Fellowship Positions." *Journal of reconstructive microsurgery* 35.09 (2019): 662-668.
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