An Analysis Evaluation of Privatisation of Public Sector Enterprises

Dr. Shalini Agrawal

Assistant Professor, Jagran College of Arts, Science and Commerce, Saket Nagar, Kanpur

Abstract

Privatisation has the potential to increase the efficiency of organisations, reduce government budgetary costs, broaden direct ownership of productive assets, and reduce the role of government influence on organisations. Research has however indicated that despite the good potential for privatisation, some privatisation efforts fail. Taking the view that too much attention in the privatisation literature has been focused on economic and/or political reasons for failure, the current paper integrates the existing literature in the Organisational Development (OD) field and proposes that OD interventions should be used to aid in effecting privatisation. To close this apparent gap in research, this paper represents an attempt to widen the scope of the existing research and literature by presenting the role of OD interventions in privatisation design and implementation. The Burke-Lit win model is recommended as a robust framework for diagnosing the need for change and for the planning of privatisation interventions in emerging economies. Example of how different dimensions of the model maybe used as a tool for assessing the need for change, and for planning and implementing change from a multidimensional and multilevel systems perspective, are also discussed.

Keywords: *Organisational Development, Change Management, Emerging Economies, Privatisation.*

1. INTRODUCTION

Privatisation is a concept that is hard to define because it encompasses a wide range of possibilities from decentralisation on the one hand to market discipline on the other (Kehinde, 2010). At a general level, researchers have described privatisation as a change in the institutional template, pointing out the differences between the private sector and the public sector in terms of their environments, resources and management practices (Johnson, Smith, & Codling, 2000). The concept has also been defined as "the divestment of some government functions to private markets and the application of private markets practices, ethos and goals in public administration and policy" (Argy, 2001, p. 66). In essence, privatisation is commonly suggested in situations where public enterprises are viewed as inefficient (Boycko, Shleiferm & Vishny, 1996) and where the private sector is seen as sustainable and a more efficient engine of growth for the economy (Kehinde, 2010). Privatisation may also result from the need to increase the "efficiency of the economy, reduce government budgetary costs, broaden direct ownership of productive assets, and/or reduce and reorient the role of government to concentrate on the provision of social and economic infrastructure" (Dzakpasu, 1999, p. 1).

2. FORMS OF PRIVATISATION

Privatisation can take many forms and Martin (1999) suggests five. The first form is the privatisation of responsibilities, which is characterised by the deregulation of sector, transfer to private organisations, liquidation, and termination or reduction of state provisions. The second form is privatisation of ownership (total, majority stake, minority stake, and subsidiary).This form consists of share flotation, direct sale, auction sale, sale to investment fund, voucher privatisation, restitution, management buy-out, management and employee buy-out and/or disposal of assets. Martin (1999) presents privatisation of operation as the third form. This method includes partnership between state, private company and/or NGO, contracting out, leasing, operating concession, and/or management contracting. The fourth form is privatisation of financing. This includes private finance for public infrastructure development, recapitalisation of public companies through private investment, public/private joint ventures, new or higher user charges, and a shift to private welfare insurance. The fifth method described by Martin (1999) is marketisation or commercialisation and it is characterised by competitive tendering between in-house and outside contractors, restructuring to create an internal market, introduction of commercial goals and methods, and/or corporatisation. Regardless of the form that privatisation takes; similar to other major organisational interventions the change is likely to alter the strategic direction, the culture, systems and/or structure of the organisation (Kezar, 2001; Todnem, 2005). For instance, the change may lead to process reengineering and optimisation, as well as the introduction of the use of information technology and systems (Dzakpasu, 1999). Furthermore, by directly or indirectly impacting on corporate culture and employee contracts (Cunha & Cooper, 2002), the change may also target the individual and groups in organisations (Whelan-Barry, Gordon, & Hinings, 2003; Cunha & Cooper, 2002), somewhat changing the culture, systems and the structure of the organisation.

3. PRIVATISATION AS AN ORGANISATIONAL DEVELOPMENT INTERVENTION

As mentioned above privatisation should be viewed as an OD intervention as organisational development is also concerned with managing change in such a way that knowledge and skills are transferred to build the organization's capacity to achieve goals and solve problems (Cumming & Worley, 2005). In addition to increased performance and competitive advantage, OD supports the value of human potential, participation and development. Furthermore, viewing privatisation as an OD intervention is essential because, as with other interventions, almost all privatisation usually leads to some form of restructuring (Basu, 1994), because privatisation is a shift from one institutional template to another (Johnson et al., 2000). Johnson et al. (2000) further explain that consultants and managers in privatising enterprises need to understand "that there will be differing levels of acceptance, differing degrees of experimentation, and differing paces of change throughout the process of privatisation. This can be understood through a micro process whereby actors are deinstitunalized from the public sector and reinstitunalized into the private sector" (p. 578). This is unavoidable because the new privatised organisation might have to get rid of the organisational structures that were only appropriate for the public enterprise. Furthermore, Dzakpasu (1999, p. 3) indicates that privatisation alone without the …improvements in the management system and managerial competence, attitudes and motivations, … often leads to worse business and social results… Recognition of the strong links between privatization and changes in managerial practices will encourage a proactive approach in developing necessary result-oriented management development programmes in parallel or even ahead of the privatization process. This clearly indicates that OD theories might have a role to play in ensuring effective and successful privatisation.

4. PRIVATISATION IN EMERGING ECONOMIES

In all countries, organisations often operate within an external environment and this environment has both a direct and an indirect impact on the functioning of the organisation (Hughes, Ginnet, & Curphy, 2002). Therefore, to ensure success, organisations need to manage and adapt to the changes in the external environment (Aiyeku & Tachateerapreda, 2012). These changes may include environmental unpredictability (Auzair, 2011), changes in government laws and regulations, the globalisation of markets, major political and social events, technological advancements, changes in customer expectations, change in supplier requirements, increasing competition, organisational growth, and/or fluctuations in business cycles (Dawson, 2001). It is also feasible that the impact of the external environment on the organisation will differ in different economies. As indicated above, the current paper focuses its recommendations on emerging economies. Most emerging economies are characterised by low income and rapid growth (Hoskisson et al., 2000) and it has been suggested that there is a significant political risk for privatising firms within such contexts (Jones, Megginson, Nash & Netter, 1999; Mohan, 2001). Specifically, some researchers have reported that privatised firms within emerging economies tend to be inefficient, probably as a result of weak governance and limited protection of minority shareholders (Dharwadkar, George, & Brandes, 2000). Furthermore, privatising governments commonly pursue both political and economic objectives (Jones et al., 1999); as such, the causes of the ultimate success or failure of the reform could be more as a result of the political commitment to change. Research also suggests that while there are attempts at mature corporate governance in such emerging economies, the governance structures resemble those of developed economies in form but not in substance (Peng, 2004) and/or practice. Perotti (1995) warns that, in certain settings, populist governments may not be able to resist the political pressures to interfere in operations, change the regulatory environment, and/or reverse the policy after privatisation. This has led to some researchers suggesting that where the institutional foundations of capitalism are underdeveloped it might be more advisable to delay privatisation (Nellis, 2000).These challenges make it important for researchers and practitioners to come up with innovative ideas that will help in facilitating privatisation in emerging economies, and hence the need for the approach proposed in the current paper.

5. MANAGING THE PRIVATISATION CHANGE

As a consequence of the privatisation process, the organisation may have to streamline its operations in order to save costs, leading to flatter organisational structures. The organisation may also seek efficiency through process reengineering and automation through information technologies. As a result, many employees may lose their jobs because the focus may no longer be on employment creation (Boycko, et al., 1996). Furthermore, employees may feel confused when the organisational culture and climate change (Johnson et al., 2000). This may explain how inertia and resistance to change are among the stumbling blocks encountered when introducing new approaches (Tushman & O'Reilly, 1996) such as privatisation. Furthermore, while they seem good, suggestions that privatisation should be an alternative in situations where public enterprises are viewed as inefficient (Boycko et al., 1996) and where there is need to reduce government budgetary costs and to reorient the role of government (Dzakpasu, 1999), may lead to resistance to change from both the politicians and their constituents, posing even more problems for the proposed intervention. Such identified challenges suggest that, as part of privatisation efforts, organisational leaders need to identify, develop, manage and/or implement some form of change management strategies; as such strategies have been proven to determine whether a change effort fails or succeeds (Sirkin, Keenan, & Jackson, 2005). Researchers suggest that change management strategies should be informed by the scale of change; that is, whether the change is at the organisational, industry or enterprise level (Kezar, 2001; Todnem, 2005). Kezar (2001) based classification of change on:

1) Intentionality of change;

2) Degree of change;

3) Timing of change;

4) scale of change;

5) Focus of change; and

6) Target of change.

Kezar (2001) further broke down the degree of change into first-order and second-order change. Compared to first-order change, which can be described as a minor improvement of some dimensions of the organisation, Kezar (2001) describes second-order change as transformational and as a change effort that could alter the strategic direction, the culture, systems and processes, and the structure of the envisioned organisation. Second-order change also tends to be multidimensional and multilevel in nature as it targets many aspects of the organisation (Kezar, 2001). Similarly, Todnem (2005) classifies change by scale (i.e., fine-tuning, incremental adjustment, modular transformation, and corporate transformation). Using Todnem's (2005) classification, privatisation may be viewed as corporate transformation, which is characterised by radical alterations in the business strategy. Using Kezar's (2001) classification, privatisation may be viewed as second-order change, since it is multidimensional and multilevel (Kezar, 2001).

6. CHALLENGES OF PRIVATISATION

According to Dzakpasu (1999), one of the causes of failure in state-owned enterprises is poor management. He maintains that this could result from the fact that while state-owned enterprises are subjected to regulations and laws that apply to all business enterprises, they are also subjected to other managerial constraints that differ from those experienced by private enterprises. Some of these constraints include the public administration systems and obligations that are imposed in order to meet social goals and expectations such as excess employment, and strategies that mainly satisfy the political objectives of politicians and their constituents (Boycko et al., 1996). In such situations, the leaders/managers and stakeholders who hold power may make the transition difficult by being reluctant to let go of their powers. Zahra, Ireland, Gutierrez, & Hitt (2000) suggests that privatisation in emerging economies is more challenging than privatisation in developed economies because emerging economies do not have workforces as sophisticated as those in first world economies. This workforce challenge may pose problems where previously state-owned enterprises are inadequate to support the entrepreneurial spirit required by the privatised organisation.

Johnson et al. (2000) also indicate that the uncertainty that is prevalent during the shift to a private organisation usually leads the organisation members to pull towards conformity with the past norms and practices of the public enterprise. The employees also may tend to attach meaning to the new events they are experiencing by referencing their existing experiences in the public organisation. Johnson et al. (2000) state in this regard, the transition to private entity may be difficult because when employees were in the public sector, rules were often taken for granted, and this mentality of taking rules for granted could need to be adjusted in the private enterprise. In addition, after a comprehensive review of how and why some privatised entities fail, Mohan (2001) reveals that in the countries where law enforcement and corporate governance are weak, capital markets tend to be underdeveloped and, therefore, the problems that occur under a privatised entity may be as bad as or worse than those under the public institution.

Newbery & Pollitt (1997) further argue that because privatisation is a recent phenomenon, most of the published work that investigates the impact of privatisation on corporate performance investigates the differences in the performance of publicly owned and privately owned companies. To address this limitation, Zabalza & Matey (2011) suggest that, in order to analyse corporate performance and evaluate the efficiency of privatisation, most empirical studies either conducted comparative studies using a cross-sectional analysis of public and private firms or a longitudinal analysis looking at before and after privatisation. Zabalza & Matey (2011) further advise that an analysis of the internal changes that take place after privatisation could lead to a better understanding of the relationship between privatisation and efficiency.

7. PRIVATIZATION OF SOES IN INDIA

Conceptualization of Privatization in India The conceptualization of privatization in India consists of the following:

1. Delegation: The government manages the ownership and responsibility of an enterprise. However, private enterprises can deliver the products or services while the state actively participates in this process. Delegation occurs via a contract, franchise, lease, or grant.

2. Divestment: The government sells the majority stake of the enterprise to one or more private enterprises. Therefore, the state manages some ownership and a minority stakeholder

3. Displacement: Deregulation is the first step. This process allows private stakeholders to enter the market and then private companies will displace the public enterprise step by step.

4. Disinvestment: In this case, the government sells a partial or entire public enterprise directly to private parties. In India, privatization is linked to the economic reforms issued in 1991. Generally, privatization means encouraging private sector participation in the management and ownership of public sector enterprises or SOEs. Reviews have shown that, in the late 1980s and early 1990s, it was a global trend to reform loss-making public sector enterprises through the process of privatization. Not only developing countries like India but also certain Western European countries initiated this practice and brought it into force. India is a mixed economy that includes both public and private sector enterprises.

Private participation in SOEs accounts for 49%, and the new industrial policy considers this carefully. The need to privatize public enterprises arises because of their poor financial and operating performance. There are many advantages of the privatization of SOEs. They include a considerable amount of reduction in the burden on the government, strengthening of the professional competition, improving of the public finance, funding of infrastructure development, responsibility and accountability to shareholders, reduction of unwanted interference, a committed labor force, and so on. Figure 1 shows the growth of public sector undertakings and performance contracts in India.

Figure 1: Growth of Public Sector Undertakings and Performance Contracts

Another interesting research work has offered an understanding of privatization. Mandiratta and Bhalla (2017) claimed that SOEs have lower proficiency than privately owned firms. Thus, the main objective of disinvestment6 is to decrease the participation of the public sector in the economic actions of the country to support the private sector. The study investigated the performance of 15 central public sector enterprises (CPSEs) in the manufacturing, mining, electricity, and service sectors of India through the public share offering mode over the period 2003–12. It employed indicators to conduct a ratio analysis, including the computation of the return on assets, return on equity, sales efficiency, net income efficiency, debt equity, dividend payouts, real sales, and employment levels. The results showed that the public offering mode entails performance changes in CPSEs disinvested through the involvement of retail investors. Besides, the research interpreted the achievement and failure of privatization in the Indian context. According to Kikeri and Nellis (2002), it is necessary to consider four determinants, namely commitment, competition, transparency, and mitigation, because these affect the privatization yield in India. Specifically, in the Indian context, the competition and transparency factors have high scores, while commitment and mitigation obtain poor scores. To overcome the issues of privatization, the government should implement options such as partial privatization, the streamlining of objectives, increased autonomy, and managerial accountability (Kay and Thompson 1986; Yarrow 1986; Vickers and Yarrow 1991). India's privatization of SOEs has many advantages and disadvantages. One can always argue for and against privatization. According to Tejvan Pettinger (2017), privatization involves selling state-owned assets to the private sector. There is a belief that the private sector can run a business more efficiently, as it places more emphasis on profit maximization. However, critics have argued that private hands can exert their monopoly power in the market at the cost of the wider social costs. The following table provides points for this argument.

Table 1: Privatization versus Nationalization

Factors	Privatization	Nationalization
Ownership	Firms owned by the private sector	Firms owned and managed by the government
Incentives	The profit motive acts as an incentive for owners and managers	Workers may feel motivated if they feel that the company belongs to them
Externalities	Private firms may ignore external costs(pollution) and external benefits	The government can put social benefits above the profit motive
Efficiency	Incentive to introduce new technology and increase labor productivity	Nationalized firms may find it hard to sack surplus workers
Knowledge	Private firms employ managers with the best skills	Politicians may interfere based on political motives
Natural monopolies	Private monopolies, e.g., water/trains, may charge high prices	The government can set prices based on social factors
Depends on industry	Worked well for BT and BA	Natural monopolies, like trains/water; non-profit services like health care

Creative actions of privatization in India include: (1) deregulating—reducing regulations (often a defining characteristic of privatization); (2) contracting with the private sector to purchase a service (road construction); (3) establishing incentives to encourage the private sector to provide a service; (4) abandoning or shedding services; (5) reducing the demand for a service; (6) establishing quasi-public organizations (government enterprises or charters); (7) establishing separate corporations—profit and non-profit (authority); (8) supplying temporary help on the part of the private sector; (9) issuing vouchers (K-12 education); (10) issuing waivers; (11) selling or giving away government owned assets; (12) establishing franchises; (13) leasing; (14) subsidizing or making grants available to the private sector; (15) relying on user fees rather than tax dollars to fund a service (hunting licenses); (16) discontinuing subsidies to public entities providing joint funding; (17) establishing public/private partnerships; and (18) setting up consumer self-help processes or using volunteers.

Advantage of Privatization

There are some advantages of privatization. First, the incentive in private companies is always higher than that in public enterprises. The managers and officials of a private company usually take care in the game, because their income is associated with the performance of the company, while this incentive is not present in public organizations. Consequently, privatization generates greater efficiency of the firm. Second, there is a considerable amount of political interference in a public enterprise, and this interrupts the company in terms of taking economically beneficial decisions. In contrast, private companies do not usually allow political factors to influence their performance. Third, all the goals in the process may be short term, because the government often expects to obtain more votes from the public and therefore is often interested in the upcoming elections. The long-term goals of the company are often based on political decisions. Finally, privatization may enhance the competitive capacity of the firm in the market and consequently benefits consumers.

Disadvantages of Privatization

However, privatization has some disadvantages. For instance, this process concentrates more on the target in profit maximization, while India is the second-largest democratic country in the world. The social responsibility activities are minimal when compared with those of SOEs. Private sector enterprises do not give much importance to transparency and keep their stakeholders in the dark. To achieve their goals, private enterprises make every effort, such as encouraging corruption, unlawful ways of accomplishing objectives, lobbying, and so on. A review of the privatized status has indicated that privatization results in high employee turnover, retrenchment, low salaries, and so on, causing a certain imbalance in the society. Privatization and price inflation go hand in hand. Many more inconveniences, disadvantages, difficulties, setbacks, and troubles have continued during and after the privatization of SOEs in India.

8. CONCLUSION

Privatisation was described as a composite of policies, measures and strategies that involve the country's withdrawal from direct intervention in the economy by transferring business activities from the public to the private sector by selling or transferring assets, implementing leasing arrangements, and/or by contracting and outsourcing. It was argued that most of the literature that discusses how privatisation should be done focuses on economic and political assessment and recommendations. The paper discussed privatisation in emerging economies and argues for the inclusion of OD approaches in privatisation. When attempting privatisation, suggestions that public enterprises are characterised by inefficiency, bureaucracy and an uncaring attitude and that they tend to pursue counter-efficiency strategies, such as excess employment, to satisfy the political objectives of politicians call for robust and multilevel frameworks, models, approaches and methodologies. Accordingly, the Burke-Litwin model was presented as a robust framework for the need for change and for the planning of privatisation interventions in emerging economies. Most change agents and managers will acknowledge that at times even a small change like introducing a new manager from the private sector to the public sector and vice versa may cause systemic changes as the new managers may come with new visions and even new ways of achieving strategic objectives. Even in such cases, the model can be used to assess how the changes in one element of the organisation may impact on other elements because the model is robust and versatile enough to be used for incremental organisational changes and for more transformational organisation-wide changes, making it adaptable to most types and forms of privatisation. Given the complexities of privatisation, both researchers and practitioners need to continually develop innovative ideas that will help in facilitating privatisation; consequently, making the current paper valuable.

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