

**THE PSYCHOSOCIAL IMPACT OF PRIVATISATION  
ON EMPLOYEES AND THEIR FAMILIES**

**BY**

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This dissertation was language edited by Professional Language Services

## DECLARATION

I, Ramaesela Martha Matlabe (Student number 95202294), hereby declare that this research report "The psychosocial impact of privatisation on employees and their families" is my own work and that all the sources and quotes I have used are acknowledged.

**Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

## **ABSTRACT**

The researcher investigated the psychosocial impact of privatisation on employees and their families.

The investigation comprised a literature study about privatisation in order to gain understanding of the concept, and a qualitative empirical study. A semi-structured interview schedule was used as a basis for data collection.

Retrenched employees from a national parastatal organization were identified for the purpose of the study. The interviews were conducted at the respondents' places of residence.

The results found that retrenched employees experienced various problems differently, e.g. financial, marital, and educational problems. The results also indicated that no provisions were put in place to provide for respondents' retirement or life after retrenchment.

Retrenched employees received lump sums, which they could not manage properly. Most of the respondents were in a low-income category and are the ones who were hurt most by privatisation and the resulting retrenchment.

The South African government introduced privatisation with the aim of improving the livelihood of the majority of South Africans. There are concerns, however,

that privatisation has hurt the socio-economic and psychosocial welfare of the same majority it intended to help. Civil society concerns are that the benefits have gone entirely to the managers of the process. There is a feeling that companies or parastatals have not facilitated adequate participation of the employees in the process, and thus the employees feel robbed.

This report represents the study that was conducted with the aim of assessing the impact of privatisation on employees and their families. The major findings are as follows:

Firstly, a large number of people interviewed indicated that they were not well-informed about the retrenchment programme. However, they understand privatisation to mean the sale of state-owned assets previously owned by the white minority government, but which have accrued to all the citizens of the country since the coming of the New South Africa. According to the respondents, no provisions were put into place for the retrenchment process.

This study provided the opportunity to assess the impact of privatisation, to identify and provide understanding of problems, emotions, and effects that employees experience after the transformation that led to them being retrenched. In order to understand the impact of job losses, the consequent social problems and health and educational issues that resulted in budget cuts,

one has to know what changes people go through and the effects these changes and challenges have on their lives and on the lives of their families.

Secondly, it provides an overview of the empirical research findings and interpretation of the data on the impact of privatisation on retrenched employees.

Thirdly, the report addresses the recommendations for the state or government to help the policymakers and the government officials understand potential risks and benefits of privatizing particular government services.

## **KEY CONCEPTS**

Privatisation

Employee Assistance Programme

Employee

Family

Labour

Retrenchment

## **APPENDICES**

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## CHAPTER 1 – GENERAL INTRODUCTION

### 1.1 INTRODUCTION

Since the takeover by the new government in South Africa in 1994, extensive restructuring has come into place in every sphere of the workforce. The government has been criticized by some of the labour unions, especially the Congress of South African Trade Unions (COSATU). The State has been accused of implementing the restructuring programme without due regard to the impact of such restructuring on employees, and has embarked on privatisation of state-owned assets. This developed into an argument between the government and trade unions (Ramanadlam, 1995:14). Employees were affected as new policies and legislation came into operation.

Privatisation and restructuring have been at the centre of national reform programmes. The economic rationale that underpins the restructuring focuses on bringing about increased efficiency that will encourage the growth of private sector enterprises, and that will reduce the role of the State. Privatisation has become a popular means of solving the organisational problems of the government by reducing the role of the State and encouraging the growth of the private sector enterprises. Even though much has been done in practice in the direction of privatisation, the government generally voices some caution when it comes to privatisation, arguing that it will not privatise on a wholesale basis or without regulations. The government also avoids using the term “privatisation”, preferring “restructuring” or “private partnership” (Mail and Guardian, 2003-37).

Prior to privatisation, the government was responsible for devising any necessary regulation and for developing labour strategies that secure the support of employees and ensure adequate social provision. Employees, workers, worker representation (labour unions), and managers as stakeholders normally feel

increased job insecurity and vulnerability. In developing countries such as South Africa this may affect the family and extended family, as many job-related benefits such as health and child care could be lost (Mail and Guardian, 2003-38).

Piese (2001:21) states that the major objective of privatisation is to improve the efficiency, competitiveness, and sustainability of the whole private sector of the economy. Yet, Piese (2001) cautions that in addition to the economic emphasis, there should also be a social safety net to protect redundant workers in the event of dismissal. Workers should be safeguarded through the inclusion of, for example, separation indemnities, unemployment insurance, assistance in re-employment, and retraining.

Moreover, the participation and involvement of all stakeholders in the process of privatisation is very important. Participation is even more significant than straightforward restructuring to find acceptable ways to gain the support of unions and workers from communities that could be affected, and also from the public at large.

It is important to acknowledge that privatisation is a political process and that for this reason it not only has an important economic impact, but it also entails social implications that affect enterprise performance, social welfare and stability. The social impacts therefore have to be considered in any impact assessment, more specifically those social impacts related to employment and social safety net measures, as well as social privatisation that results from extension of shared ownership to small investors and employees. These social impacts as well as the role of public utilities and services in economic and social development all need to be included in such a study (Piese, 2001:13).

According to COSATU, the State has failed to propose consistent, strong structures to analyse the cost and benefits of privatisation in a systematic manner (COSATU Newsletter, 2001:15). The statement by the ANC on the “Restructuring of State Assets” (2002:2) indicates that the thrust of the restructuring programme is to reposition and restructure the state-owned assets to ensure that they make a meaningful contribution, and to stimulate economic growth while improving levels of service to the people. However, COSATU’s opinion is that privatisation impacts negatively on employees, which in turn affects their families, and that the State has failed to restructure in such a way that it benefits the workers.

Some experts believe that privatisation is necessary and essential for making services more efficient, because without it co-operation will be hindered and key services will be costly. On the other hand, there is a legitimate concern from unions that privatisation could be to the disadvantage of the poor, because they will not be able to afford services (COSATU Newsletter, 2001:13).

If a balance must be reached between economic and social interests, privatisation implies re-adjustment of the roles of the government and the private sector in both economic and social development. Privatisation needs to be carried out in any way that can ensure success and widespread support. In some cases, it has played a role as an instrument of systematic change. However, in shifting the emphasis the state seems to be shifting its responsibilities as a regulator of privatized monopoly to becoming a guardian who has to ensure fair competition. But this should not be done at the cost of providing the necessary social protection, especially to the most vulnerable sector of society, which is the poorest of the poor (COSATU Newsletter, 2003:15).

Through privatisation, South Africa needs to develop a sustainable economy and a state infrastructure that will progressively improve the quality of life of all South Africans. According to reports in the *Mail and Guardian* (2003:34), this social policy has always been the fundamental principle that served as a pillar in the development and evolution of the macro-economic policy of the country. If this fundamental principle must be accepted, the restructuring of State assets is but one of the landmarks of the government crusade. It should be expected that unintended consequences would arise.

Though the theory is that the private sector can be more efficient than the public sector and that it can run public services more economically, the social impact should be assessed. The effect of the service provision on poverty may be that though some workers might benefit, it could lead to higher unemployment levels and a loss of benefits to other workers.

Some experts, such as Sakkie Kajee (2006), acting CEO is in favour of privatisation, because it will allegedly improve service delivery in the company. The remaining employees will benefit more and will have better salaries. On the other hand, Karl von Holdt, senior researcher to SATAWU, has a different opinion and he queries the legitimacy of the way in which the government and state owned companies are going about privatisation. He believes employees will suffer due to restructuring and most of them will be facing retrenchment, whether the labour movements negotiate or not (Lewis, 2002:19).

In the context of the above-mentioned, the researcher focussed on investigating the psychosocial impact of privatisation on the employee and his/her family. Generally, the researcher investigated the changes this process has had on the lives of former employees in Pretoria who live in the Pyramid area.

The researcher is of the opinion that privatisation may not only affect the employees and families, but in turn may have an impact on society at large. The employees are concerned with the fiscal impacts, the reduction of public sectors, and the way the social and political aspects are affected by privatisation.

To verify the facts discussed above, consultation with experts is important as it provides the researcher with more views of the research problem. Strydom (1998:181) stated that the researcher should ensure that various experts are approached for their opinions and experiences. Cilliers, as cited in De Vos and Fouché (1998:181), explains that experts can help to gain valuable information on the more technical and practical aspects of the prospective research endeavour.

The results of the study has helped the researcher with the recommendations as to the effects the employees encounter or experience, and helped to develop the relevant programmes to enhance their life skills and empowerment during transition.

## **1.2 PROBLEM FORMULATION**

The researcher is employed by the Department of Social Development in Gauteng. The researcher observed that there are highly publicised debates and conflicts surrounding privatisation between the government and Trade Unions. This has prompted the researcher to find out more about the subject as privatisation always affects employees, because they experience problems in adjusting to transformation and restructuring (SABC NEWS Bulletin, May 15:2003).

Privatisation causes unemployment which leads to poverty, and it also accounts for heavy social impacts. The main arguments for privatisation are that it will

enhance efficiency in addressing social needs and leverage private investment to that end. The first argument assumes that South Africa has relatively efficient markets from the social stand point; an assumption that holds neither in theory nor in practice. Above all, because of unequal incomes, private providers have little incentive to serve the poor and cannot easily capture the benefits of broad-based development. The result is that private providers simply cannot take on the developmental role of the State and undermine cross-subsidisation, increasing the pressure to raise tariffs for the poor (COSATU newsletter, 2003:35).

In the above circumstances, government lacks the capacity to compel private providers to meet national targets. Moreover, the attempts to restructure on a broad front, combined with excessive faith in private expertise has led to management mistakes.

Given these realities, the argument that privatisation will bring in funds really only means that it will increase the off-budget resources available for infrastructure (Mail and Guardian, 2003:31).

On the other hand, the cost may be high for the state, in terms of subsidies or lost assets, and for poor consumers in the form of rising tariffs and limited access.

Privatisation does not meet social needs; it has enhanced mass poverty aggravated by mass job losses since 1990 (Pretoria News, 2003: August, 24). The fact is that producers cannot capture the long-term gains associated with improvement in basic service, and therefore cannot carry out the developmental role of the State. They also have difficulty in moving resources between sectors associated with high unemployment.

Privatisation cannot meet the needs of the poor. South Africa inherited a particularly unequal distribution of income. Estimates suggest that in this regard South Africa ranks third worst in the world, following Brazil and Uruguay. The richest 10 percent of South Africans get around 45 percent of national income, compared to an income between 30 and 40 percent for almost all other middle-income developing countries (Mail and Guardian, 2003:35).

In part, inequality is rooted in the injustices of the apartheid which denied the majority of South Africans formal qualifications and access to basic infrastructure and as such, denial to informal and formal jobs. This has been aggravated by the massive loss of formal jobs in the past decade (Lewis, 2002:192).

According to Lewis (2002:190), job creation in the last decade has been dismal. The total employment (formal and informal) of skilled, unskilled, and semi-skilled labourers in 1999 was eight percent lower than the level in 1970. While the number of informal sector jobs quadrupled between 1970 and 1999, massive job shedding due to privatisation has masked the formal sector. Between 1981 and 1999, the level of formal sector employment declined every year, losing a total of 1.3 million jobs over a period of less than a decade. More recently, privatisation is said to have caused tens of thousands of job losses, at a time when unemployment has skyrocketed from 16 percent in 1995 to more than 25 percent in 2006. This caused much concern to employees, and hindered on efficiency, employment and equity.

Though privatisation is said to be improving productivity, the cost of this benefit is carried by the poorest sector of society. The poor, especially in the rural areas, cannot rely on the private sector to provide basic services. Only the state can do that, breaking the vicious cycle of poverty and initiating broad-based, rapid economic and social development. A developing country's economic policy must support strong industrial development to restructure the economy toward

growth. To that end it needs to direct the development of an economic infrastructure to support employment-generating activities (COSATU Newsletter, 2001:45). Generally, privatisation undermines the ability of the developing state to fulfil its core functions in terms of social protection and increasing assets for the poor.

Privatisation, with a short-sighted target of maximising profits, may well end up imposing large costs on the government and society, such as aggravating job losses and exposing employees and their families to poverty and hardships.

Given that privatisation is still in an early stage there is not enough research done on the subject, since it was introduced in South Africa by the new government. It was observed that privatisation affects employee production, as employees experience increased fears of possible retrenchment (COSATU newsletter, 2001:13).

The above-mentioned factors came from direct observation by the researcher. The researcher was part of the former employee community living in the Mabopane area and the need for research therefore derived from direct observation and first-hand experience of the impact of privatisation at grassroots level. Privatisation not only affects employees and their families, but also the community where employees reside.

The Trade Unions' (COSATU) view on the issue of privatisation has been very heated. They challenged the government's policy from every angle. In this study, employees' views have been investigated in detail as to how the impact and changes have affected their lives.

Furthermore, COSATU has lambasted the government's intentions to sell all or some of the government assets. The government in turn is adamant that nothing

will stop it from carrying out its plans. According to COSATU (in Pretoria News 24 August 2001), privatisation has led to a 40 percent increase in local telephone costs, unaffordable fees in better schools and tertiary education, proposals that would increase the cost of electricity by 20 to 50 percent for households, rising water prices, worsening service standards, cut-offs, and evictions. All these have effects on employees and those who have been laid off (retrenched).

From the factors discussed above, the researcher formulated the problem as follows: Privatisation resulted in serious poverty for employees of a national organization. A lack of resources and means for those employees and their families may result in serious consequences on a psychosocial level.

The real problem that the researcher investigated is the lack of scientific evidence on the psychosocial impact of privatisation on employees of a national organization and their families.

### **1.3 GOAL AND OBJECTIVES**

#### **1.3.1 Goal of the study**

According to Mouton and Marais (1990:43) the goal of an exploratory study is the exploration of a relatively unknown research area, and this is relevant because many opinions have not been voiced on the impact of privatisation. This study will attempt to contribute in a systematic way to improving understanding of the impact of privatisation on ordinary people in South Africa.

***The goal of the study is to explore the psychosocial impact of privatisation on employees and their families.***

### **1.3.2 Objectives of the study**

By studying privatisation, the researcher had an opportunity to identify and understand the problems, emotions and effects that employees experience during the process of transformation, restructuring and retrenchment caused by privatisation. In order to understand the impact of job losses, the consequent social problems, and health and educational issues that resulted from budget cuts, one has to know what changes people go through and the effects that those changes have on their lives and families (Mail and Guardian, 2003:23). In this study, the objective is to find out about the coping mechanisms which these people employ and the strategies they use to survive the so-called "Structural Adjustment to Programmes".

In order to achieve the set goal for this study, the following objectives have been formulated:

- To explore privatisation by focussing on current policies and critiques concerning privatisation from a theoretical point of view.
- To empirically explore the psychosocial impact of privatisation on a group of employees who have been retrenched and their families.
- To formulate certain guidelines for employers in dealing with privatisation in order to limit the impact of privatisation on retrenched employees and their families.

### **1.4 RESEARCH QUESTION**

It is important to formulate the research question in a precise manner in order for the researcher to have a concise focal point from which the research can be structured. Grinnell (1993:24) states that research questions are simply efforts to

be clear about the ignorance that makes the situation problematic. The research aims to find answers to the question formulated.

Though much has been written on privatisation, not much research has been done within the South African situation (Pretoria News, 2003: August, 24). This research may contribute through exploring people's experiences in order to gain insight into the situation.

In this study the research question is formulated as follows: ***What is the psychosocial impact of privatisation on employees and their families?***

## **1.5 RESEARCH APPROACH**

Two approaches were identified by Bless and Higson-Smith (1995:150), i.e. qualitative and quantitative. They describe qualitative research as the research conducted by the range of methods that use qualifying words and descriptions to record and investigate aspects of social reality. On the other hand, quantitative research is conducted using a range of methods which use measurement to record and investigate aspects of social reality. Quantitative research relies more on the informal wisdom that has developed from experiences of research (Neumann, 1994:330).

In this study, a qualitative approach has been applied as the researcher is interested in determining the psychosocial impact of privatisation on retrenched employees and their families, which was expected to be of an emotional nature.

For this method of data gathering, interviews have been utilised according to a Un-structured schedule which allowed maximal guidance and considerable latitude for interviewees. A set of predetermined questions were developed for

such an interview schedule. The un-structured interviews helped the researcher to gain a detailed picture of the psychosocial impact of privatisation on participants.

According to Neumann (1994:342), a qualitative study aims at the development of theories and understanding. It will further provide an improved understanding of an employee's behaviour and experiences.

Furthermore, qualitative research helped the researcher to see "through the eyes of the interviewees". In order to gain such an insider's perspective, the events, actions, and expressions were studied from the perspective of the people being studied.

In this study the emphasis was on trying to understand the psychosocial impact of privatisation on employees retrenched from a national organisation. The advantage of a qualitative approach is that it provided flexibility, because this enhanced the opportunity to discover entirely unexpected issues which may be of interest.

## **1.6 TYPE OF RESEARCH**

According to Bless and Higson-Smith (1995:37), research is classified as basic social research and applied social research. Basic research aims to increase human understanding of a particular aspect of society and, in contrast, applied social research aims to solve a particular problem confronting a group of people.

According to Bailey (1994:22), applied research will provide findings that can be applied to solve social problems of immediate concern. The researcher has chosen applied research, for it covers an aspect of social science which is

currently hindering the development and psychosocial well-being of employees and has practical implications. This type of research is relevant to this study because the retrenchment and restructuring may have affected the normal functioning and psychosocial well-being of employees, resulting in limiting the negative impact of privatisation in the future.

## 1.7 RESEARCH DESIGN

According to Grinnell (1993:94), research design is a blueprint or a detailed plan as to how a research study is to be conducted; it is the operationalizing variable that can be measured, selecting a sample of interest to study, collecting data to be used as a basis for testing hypothesis, and analysing results.

Phenomenology is the most appropriate design relevant for a study on privatisation as a phenomenon. Through the application of the phenomenological design, the researcher understood and interpreted the meaning or impact given by the subjects of the phenomenon of privatisation on their everyday lives (Fouché, 2002:273).

A phenomenological strategy also helped the researcher to enter the subject's world and life settings. In so doing the researcher was empathising with the subject (Fouché, 2002:273).

## 1.8 ETHICAL ASPECTS

According to Levy in Strydom (1998:57), ethics provides values, i.e. preferences for certain forms of conduct that guide behaviour in human beings. Furthermore, ethics is a set of moral principles of an individual or group. Ethics offers rules and behavioural expectations about the most accepted conduct or correct behaviour towards respondents. It serves as a standard for researchers to evaluate their conduct.

### **1.8.1 Harm to experimental subjects or respondent**

Babbie (2001:471), states that respondents should be thoroughly informed beforehand about the potential impact of the investigation; the respondents had the opportunity to withdraw if they wished to do so.

The researcher ensured that no physical or emotional harm came to respondents. She thoroughly informed the respondents beforehand about the nature of the questions, and identified the vulnerable respondents in time, in order to provide them with the option of withdrawing from participation. The researcher protected the respondents against any form of physical or emotional discomfort that emerged, by providing a safe environment.

### **1.8.2 Informed consent**

According to Grinnell (1993:83), informed consent is very important as it provides the respondents with information on the goal of the investigation, the procedures that will be followed during the investigation, the advantages and disadvantages, and the dangers to which the respondents may be exposed.

Written letters of informed consent were given to respondents to sign, as proof that they are participating voluntarily. They were also provided with an opportunity to ask for clarification. Participants were given time to decide whether to volunteer to participate, or to withdraw if they wished to do so.

### **1.8.3 Deception of subjects or respondents**

Neumann (1994:229) describes deception of respondents as deliberately withholding information or misinterpreting facts to make the other person believe something that is not true. Deception violates the respect to which every person

is entitled. Deception normally occurs when the researcher intentionally misleads respondents.

The researcher did not disguise the real goal of the study, nor did she hide the real function of the actions of the respondents or withhold any information or give wrong information to the respondents. Subjects were not misled in any way. A complete explanation of the total investigation was given to respondents in clear and understandable language.

#### **1.8.4 Violation of privacy**

Strydom (1998:67) reiterates the fact that confidentiality and the right to privacy are very important factors that should not be violated; the respondent has to decide when to divulge information and the researcher should handle the information with confidentiality. The respondent has the right and the competency to evaluate available information, weigh alternatives against one another, and make his/her own decisions. The privacy of all participants was respected. They were given a chance to make their own decisions. The information obtained was treated confidentially.

#### **1.8.5 Actions and competence of researcher**

Babbie (2002:67) argues that researchers are ethically obliged to ensure their competency and that they are adequately skilled to undertake the proposed investigation, in order to ensure the validity of data. The researcher was professional and competent in conducting the study. There was correct reporting. The researcher refrained from making value judgements and was objective at all times. Moreover, the values and customs of the community were respected at all times, as this promoted and obtained proper cooperation from respondents. All possible risks and advantages of the investigation were evaluated.

### **1.8.6 Release of publication of the findings**

Strydom (1998:65) states that the report should be compiled as accurately and objectively as possible, so that the report would be clear and would contain all information necessary for the readers to understand what has been written.

The researcher ensured that the investigation proceeds correctly, and that no one is deceived by the findings. The information was formulated and conveyed clearly.

Subjects will be informed about the findings in an objective manner without offering too much details or impairing the principle of confidentiality. The community was acknowledged and thanked for their participation. The report is in written form. The researcher ensured that the report is objective; written in simple language (English) that can be understood by the public. Any shortcomings experienced were mentioned, and confidentiality was protected.

### **1.8.7 Debriefing**

Babbie (2001:477) states that a debriefing session provides the respondents with the opportunity to work through their experiences and the aftermath of the study. The respondents can correct the problems encountered during the research. Feelings were discussed and explored. The sessions took place in a supportive manner rather than being only a brief and potentially threatening confrontation. The researcher ensured that the debriefing was conducted in a professional manner, because the researcher is a social worker who adheres to the ethical code of this profession.

No therapeutic intervention took place. The interviewer was aware of the impact that the interview may have on the participant and, because of her experience, the interviewer was able to handle participants and refer them if needed.

No professional intervention was necessary. Should the need have arisen, the respondents would have been referred to Mrs Ledingoane (a therapist) in Northwest, or to another relevant professional. Costs were not considered, because it is a welfare service.

The researcher firstly provided an opportunity for people to work through their experiences and the aftermath of these experiences, and secondly for debriefing, by referring them to a service provider such as social workers and psychologists of the Department of Social Development. The researcher made sure that any misunderstanding that may arise would be rectified. Termination and withdrawal was handled sensitively.

## **1.9 DEFINITION OF CONCEPTS**

### **➤ Privatisation**

Privatisation is “any shift of activities or functions from the state to private sector, any shift of the production of goods and services from public to private, and the reduction in regulatory and spending activity to the state” (Policy Framework, August 2003:2).

COSATU’s section 77 notices define privatisation as “the extension of the control and wealth of the private sector at the cost of the state.” In effect, privatisation refers to the process that the Department of trade and industry (DTI), in its recent discussion document on industrial strategy (DTI 2001), calls “the extension of the market”.

According to the Report on Poverty and Inequality in South Africa (1998:9), privatisation is: “the restructuring programme which includes the mechanism for transforming public corporations, the sale of non-strategic assets, the creation of public-private partnership, and the restructuring of the public service.” The overall thrust of public sector restructuring is to reduce government spending by ensuring that the government stops providing services that can be provided more efficiently by the private sector.

According to the researcher, privatisation is the sale of the state’s assets, commercialisation of those assets, and turning those functions over to be performed by the private sector. There are pros and cons of privatisation. On the one hand it provides better opportunities for the remaining employees and it is said to improve and increase productivity, while on the one hand privatisation causes a loss of jobs. Done correctly, the restructuring of state assets can lead to an expansion of services at low prices and provide other economic opportunities that can empower employees to lead a better life. Privatisation can further be defined as follows:

- **Partial privatisation** is the divestment by the government of part of its ordinary shareholding in the designated enterprise (Journal: Privatisation and Government Reform Experts, 2005).
- **Full Commercialisation** means that enterprises so designated will be expected to operate profitably on a commercial basis and will be able to raise funds from the capital market without government guarantee. Such enterprises are expected to use private sector procedures in the running of the business (Journal: Privatisation and Government Reform Experts, 2005).

- **Partial Commercialisation** means such enterprises so designated will be expected to generate enough revenue to cover their operation expenditures. The government may consider giving them capital grants to finance their capital projects (Journal: Privatisation and Government Reform Experts, 2005).

In both full and partial commercialisation, no divestments of the government's shareholding will be involved, and such commercialisation shall be subject to the general regulatory powers of the government (Journal: Privatisation and Government Reform Experts, 2005).

Mitchell (2005:124) defines privatisation as the "shifting of a service from the government to the private sector, often by selling government-owned assets, purely divesting the government function." The broader definition of privatisation includes a wide range of public-private partnerships, and the creation of federal corporations and quasi-government organisations.

Furthermore, the government policy defines the privatisation of state-owned enterprises as a restructuring programme (Mitchel, 2005:126). The programme was and remains designed around a multiple array of strategies or mixed options, designed to ensure the maximisation of shareholders' interests defined in economic, social and development terms.

Restructuring therefore refers to the matrix of options that includes the re-design of business management principles within enterprises, the attraction of strategic equity partnerships, and employment of various immediate turnaround initiatives (Policy Framework on Restructuring, August, 2000:3).

The policy framework describes restructuring as the dynamic process that will require careful monitoring and constant evaluations, and the policy focuses on:

- The government's vision on restructuring;
- The economic and social effects of restructuring;
- Promoting empowerment and broadening participation in restructuring;
- Improving corporate governance and ensuring improved ethics; and
- Improving the restructuring process (Policy Framework August, 2000:3).

The following acronyms have been used in the report

COSATU	Congress of South African Trade Unions.
DTI	Department of Trade and Industry.
DPE	Department of Public Enterprise.
SOE	State-Owned Enterprise.
CHD	Centre for Human Development.
Impact	Something that has a strong effect on a situation or a person
Employee	A person paid to work for an organisation or for another person
Family	A group of people who are related to each other, especially parents and children

### **1.10 LIMITATIONS OF THE STUDY**

The researcher experienced problems with the respondents' family members; some spouses did not want to be involved, thinking that they are not part of the study, until study objectives were explained to them. Respondents also had a problem with being interviewed, because they did not want to share information about their former employer. The researcher had to allay their fears and explain about confidentiality. A lot of the appointments were honoured, but only after persuasion and encouragement. Some of the identified employees refused to be

interviewed, fearing victimisation, and did not trust the researcher even after all the explanations, causing the researcher to reschedule.

The researcher was late for appointments twice and this made the respondents lose confidence. However, the researcher managed to restore the relationship by apologising and explaining her reasons for being late. This helped to restore trust. The researcher also found it difficult to translate some information, because respondents were speaking their ethnic languages, and even though the researcher understood them she had to translate while transcribing.

## CHAPTER 2

# THEORETICAL OVERVIEW ON PRIVATISATION

### 2.1 INTRODUCTION

In this chapter, the researcher will firstly explain the definition of privatisation used by various authors. This will be followed by a discussion on the historical background of privatisation in South Africa, the objectives, policy, the privatisation process and lastly retrenchment.

Finally, the researcher will discuss the effects and the involvement of labour movements within the privatisation process.

COSATU defines privatisation in terms of the extension of the control and wealth of the private sector at the cost of the state.

According to the World Bank (1992:42), privatisation is “the transfer of ownership of state-owned enterprises to the private sector by sale (full or partial) of assets following their liquidation.” Some of the definitions under Privatisation Policy Framework (August, 2002:6) include the following:

Privatisation is regarded as the transferring of part or whole of other interests held by government to the private sector, directly or indirectly, in a public enterprise. Privatisation is further defined as the sale or partial sale of state-owned assets or enterprises (World Bank.1992:46).

The concept of privatisation has emerged and found emphasis throughout the world because of the failure of state-owned enterprises, even though they were

created for noble reasons. There are several reasons which can be given for the existence of state owned enterprises, but those that stand out are:

- Ensuring that citizens have access to goods and services which the private sector might be willing to provide
- Producing higher investment ratios and extracting a capital surplus for investment in the economy
- Transferring technology to strategic sectors.

Although the reasons for creating the state owned enterprises are noble, many of them have not lived up to expectations. They have been operating inefficiently and have incurred losses on many occasions. This means that taxpayers' money and government finances used on them have not been efficiently employed. The enterprise has been a strain on the National Budget, in that the government had to bail them out.

From another angle, it can be said that that the government has used funds that could have been spent on development projects to subsidize state owned enterprises where they have not performed successfully.

Since South Africa became a democratic country, many challenges arose; at the top of the list is the eradication of the poverty that holds back the development of our country. Part and parcel of the developmental state are the State-owned enterprises. Our state-owned enterprises do not operate in a vacuum; they engage in economic activity and provide essential services. According to the Minister of Public Enterprise, Mr Jeff Radebe cited in Policy Framework (August ,2000:13), the traditional methods of operating business management, human resource development, and their targeted consistency were inappropriate in a democracy, therefore the restructuring of state owned enterprises will meet these challenges. (Policy framework, August, 2000:13).

From the above-mentioned factors, it becomes clear that privatisation is more properly referred to as a restructuring programme. The programme is designed around a multiple array of strategies and options are designed to ensure the maximization of shareholder interests as defined in economic, social and developmental terms. Restructuring therefore refers to the matrix of options that includes the redesign of business management principles with enterprise, the attraction of strategic equity partnership, the divestment of equity either in whole or in part, and the employment of various immediate turnaround initiatives.

Privatisation restructuring, moreover, involves improving the efficiency and effectiveness of the entity. At the broader macroeconomic level, the restructuring initiatives aim to attract foreign direct investment and to assist the development of an economic context that promotes industrial competitiveness and financial growth. Social imperatives include the need to ensure growth in the industry, particularly new ideas of endeavour, and to rationalize or develop new skills within the labour force and to deploy them throughout the economy (Vernon, 1988:99).

Unfortunately, the above-mentioned initiative is viewed differently by the labour force, e.g. COSATU, who see restructuring as a threat to employees because their members will lose jobs, and therefore this initiative will aggravate poverty.

Literature revealed that various authors argue differently on privatisation. The researcher provided an overview of privatisation, with regard to the decisions on privatisation policy, strategies, and procedures.

## **2.2 HISTORICAL BACKGROUND**

### **2.2.1 Privatisation in South Africa**

South Africa boasts a sophisticated economy underpinned by an equally sophisticated legal system. SOEs (State-owned Enterprises) are increasingly joining hands with other state-owned enterprises and with the private sector in Africa, in order to lay the foundation and infrastructure for sustainable development (Policy framework, August, 2000:14).

The South African government therefore tasked the Department of Public Enterprises to develop a policy framework that would outline plans and give guidelines to the restructuring process which leads to privatisation.

The South African government has united labour representatives into a service of cabinet committees mapping privatisation plans. The government started with the release of macro-economic framework for growth and development that would accelerate moves towards privatisation. The Minister of Public Enterprise warned that further delays could see opportunities wasted. Moreover, economists and business leaders believe that privatisation is central in restoring investor confidence, which was affected by the Rand's sharp fall (Policy Framework, August, 2000:17).

### **2.2.2 Privatisation Committee**

To start the process, the government selected a six-a-side committee of government and unions and they met to work out how to finalize the restructuring and possible privatisation of state-owned facilities, including communication and transport. Apart from the task team, a sub-committee was established in each area to facilitate the process, and labour was also represented. Privatisation plans were derailed by labour protests which resulted

in the National Framework Agreement giving unions a voice in the future of state assets (Pieter Limb in Reuters: 1996 June 13).

After the protest, the Department of Public Enterprises published a policy framework for an accelerated agenda for the restructuring of state owned enterprises. Priority was given to the restructuring of the telecommunications, public transport, and energy sectors, including Transnet, Eskom, the Water Affairs Department, and Denel.

### **2.3 FOUR RESTRUCTURED PARASTATALS IN SOUTH AFRICA**

The government has termed Transnet, Denel, Telkom, and Eskom the four big parastatals. The government claims that these parastatals bring about 80 percent of the revenue generated by all parastatals, and that their total assets amount to nine percent of all assets held by parastatals. Their restructuring and privatisation therefore have significant implications for service delivery, the meeting of basic needs and/or revenue generation (Clair Horton, 2001:11).

The restructuring of state assets has prompted a huge debate about the state's role in the delivery and extension of services and questions of efficiency and transparency. The government sees the parastatals as cost centres that need to be self-sufficient, self-funding and transparent. The government preferred to call the privatisation process "restructuring", but in reality restructuring leads to privatisation and amounts to the outright sale of government assets (Clair Horton, 2001:15).

## 2.4 GLOBAL PRIVATISATION

The privatisation wave started in the United Kingdom in 1979, whereas South Africa only started to accelerate privatisation after 1994. The UK programme is still under way and has generated a lot of money in revenue from the privatisation of major state enterprises. In the UK, the recently established labour administration embraced privatisation, whereas in South Africa COSATU did not embrace it as such (Aylen, 1997:68).

Moreover, the current wave of privatisation follows a long period characterized by nationalization and the growth of the public sector in the economy. The World Bank Policy Research Paper (2006:376) states that recent trends suggested that government ownership is still prevalent in developing countries. This correlates with the situation in South Africa where most of the assets are still under state control, and where privatisation took place, the process is very slow.

Furthermore, privatisation activity peaked in 1997 and dropped off in the late 1990s. While privatisation is still not extensively practised, it is slowly increasing. While there are a large number of studies assessing the impact of privatisation on enterprise performance and overall welfare, there is no systematic data about the extent to which privatisation has changed the role of the state enterprises in the economy. Evidence suggests that the state's role has been substantially reduced in Eastern and Central Europe and in certain countries in Latin America. (World Bank Policy Research Paper, 2006: 386).

However, available evidence also suggests that, despite a long record of privatisation, government ownership in enterprises is still widely prevalent in some regions, especially in the Southern Region, which includes South Africa.

In general, Nationalization was common during the immediate Post World War 2 period, but privatisation became a more dominant economy trend (especially within the United States and United Kingdom) during the 1980s and 1990s. This trend of privatisation has often been characterized as part of the “Global Wave” of neoliberalism policies, and some observers argue that the term privatisation was made more popular by Reagan’s and Thatcher’s policies.

On the other hand, privatisation can be helpful, but is not always essential. Countries with civil law tradition tend to approach privatisation by preparing a general privatisation law. Such laws define the rules of the privatisation programme and establish and empower the institutions charged with executing it. Canada, the United Kingdom and countries with common law tradition privatise without promulgating specific privatisation laws, using specific legislation only where required. However, countries with weaker institutions and law enforcement may not be able to ensure the transparency of privatisation. Such countries normally draft privatisation laws that clearly define privatisation procedures (Aylen, 1997:65).

## **2.5 OBJECTIVES OF PRIVATISATION**

The advent of privatisation and well-developed objectives has offered a solution in that where privatisation has been implemented, there has been evidence of successes or improved performance. The emphasis is on improving the efficiency on all parastatal enterprises. Moreover, privatisation encompasses the many ways in which the private sector assumes functions that were previously carried out by government.

The objectives of privatisation can be classified according to primary and secondary objectives and are discussed in the next part of this study.

## **2.6 PRIMARY OBJECTIVES OF PRIVATISATION**

### **2.6.1 Greater efficiency**

Privatisation fosters competition and thereby results in efficiency and effectiveness within sectors. Competition is very important for obtaining more efficient and effective public services. Effectiveness refers to the economically appropriate allocation of resources. Efficiency, on the other hand, refers to a situation in which input meets consumer demands and gives consumers enough satisfaction (Savas, 1987: 122).

In other words, there should be no restrictions on the consumers' choices. Consumers should be free to choose and not be forced to buy a certain product produced by monopolists. In brief, producers should also be free to decide what to produce, what not to produce, how to produce it and when. Both consumer and producer freedom, that is to say "economic freedom", can be achieved by privatisation (Steal & Heald, 1982:339), because privatisation brings both efficiency and effectiveness.

The economic freedom discussed above does not normally apply in South Africa. However, according to literature privatisation affects the working class when it comes to retrenchment, and therefore it causes economic hardships.

In addition, Steal and Heald (1982:341) further stated that privatisation expands the role of private sector in the economy, permitting the government to concentrate public resources on its role as a provider of basic public services, including health, education, and social infrastructure, and encourages wider participation by the people in the ownership and management of business.

### *2.6.1.1 Revealing the true and full cost of the service provided*

Privatisation makes it possible to reveal the true and full cost of the service provided. Literature suggests that publicly provided goods and services are under priced because of political and economic reasons. The political reason is that politicians tend to provide services below its true cost in order to maximize their votes to get re-elected. On the other hand, people would like to get services free of charge. Therefore, the government usually produces goods and services below its full cost prices. In other words, the public pricing of goods and services tends to be below the cost of production of these services (Kent, 1987:10).

### *2.6.1.2 Promotion of technological advancement*

It is argued that privatisation fosters and initiates technological advancement. Competition as a result of privatisation forces entrepreneurs to introduce new methods of production, which will generate additional output with the same amount of inputs. Moreover, technological advancement or progress encompasses invention and innovations. Studies in the field of economics of innovations conclude that privatisation policies, especially deregulatory measures, are very important for technological progress (Aylen, 1997: 24).

## **2.6.2 Secondary objectives of privatisation:**

### *2.6.2.1 Development of the capital markets*

The secondary objective of privatisation is to develop capital markets. The main purpose for establishing a capital market is to withdraw some of the savings of

individuals and private firms and to lead them towards productive investment fields. Privatisation plays a crucial role in fostering an equity market by:

- creating a more market-oriented economy;
- promoting the development of the capital market; and
- preserving the goal of self-reliance (Washington Post, 2001:42).

Given these objectives, the parastatals are expected to:

- increase private sector savings and investment (both local and foreign) in all sectors of the economy which, in turn, will stimulate sustainable employment opportunities;
- increase tax collection from businesses that become profitable after privatisation;
- create an environment that will encourage private investment and the emergence of indigenous entrepreneurs; and
- improve the quality of service delivery and other public services (Wilde, ILO Paper: January, 2000).

### **2.6.3 General objectives of privatisation**

Common general objectives of privatisation are as follows:

- Fostering increased efficiency in the economy;
- increasing competition and reducing monopoly;
- promoting participation by the South African public;
- raising revenue for government;
- enhancing growth in the economy and improving the living standards and welfare of the people through the benefits of privatisation, that is to say better salaries.
- growth;
- curbing inflation; and
- raising extra revenue for the government

Eliminating unemployment and reducing the power of public Employee Unions (Aylen,1997:65). However positive, the above objectives are in favour of the state and do not cover the employees who are employed by those parastatals. The objectives do not cover the consequences the process will have on employees.

## **2.7 PRIVATISATION POLICY**

### **2.7.1 South African policy on privatisation**

From the historical background and planning of privatisation, the government developed policies to guide the implementation of the privatisation process.

South Africa developed the Policy Framework which describes a dynamic process that will require careful monitoring and constant evaluation. The framework provides processes and strategies to guide privatisation. At the same time, the policy developers believe that the policy will provide satisfaction, confidence for the employees, managers, boards and investors alike.

According to Kent (1987:87) the primary shareholder, i.e. the government, provided the agenda and ensured that the restructured state owned enterprises will continue to play a responsible, proactive role. The policy framework ensures consistent approach-restructuring across the government and ensures that perceived market uncertainties are addressed to this end. The policy addresses these requirements, and focuses on:

- Government vision for restructuring; and
- the economic and social effect of;
  - Promoting appropriate regulatory and competitive frameworks
  - Promoting empowerment and broadening participation in restructuring

- Improving corporate governance and ensuring improved ethics and probity
- Improving the restructuring process (Policy framework: August, 2000).

### **2.7.2 Privatisation Policy - comparison with other countries**

In the case of Pakistan the privatisation of state-owned enterprises largely resulted from the negative experiences of state-owned enterprises relying on the public sector to operate virtually all infrastructure and financial services and many industrial units. The government nationalized many businesses and enlarged the areas where the private sector was prevented from competing. Therefore their state owned enterprises exhibited mismanagement and overstaffing, inappropriate and costly investments, poor quality coverage of service, high debts, and fiscal losses, as well as production and profit that were well below their potential (Privatisation Commission, 2001:197).

From the literature, the situation faced by Pakistan differs from that of our country, because South Africa's privatisation results from the private sector buying more state-owned assets than the public.

Furthermore, the Privatisation Commission (2001:201) argues that only a strong and dynamic private sector can help Pakistan achieve its long-term economic growth and employment objectives. The government's policy of liberalization and privatisation aims to promote market-based, private sector-led growth. Long-term growth is at the heart of poverty reduction.

Malawi's policy is to diminish the size of the public enterprise sector through privatisation with a view to:

- Foster increased efficiency in economy;
- increase competition and reduce monopoly in the economy;

- promote participation by the Malawian Public Enterprise; and
- raise revenue for the government.

The above-mentioned compares exactly with South Africa, where there is competition and promotion of market-based growth.

By realizing these objectives the government will create an economic environment conducive to private sector development, as well as free and social programmes.

Malawi already has a Public Enterprise (Privatisation) Act in place. This act was passed in parliament in March 1996. This Act sets out the objectives and guidelines for the privatisation programmes, and also establishes the institutional setup for the execution of the privatisation programme.

Therefore, Malawi seems to be advanced in privatisation compared to South Africa for they already have legislation to direct the process of privatisation, whereas South Africa is still operating on the framework.

Generally the above-mentioned governments' policies are related in the sense that they designed their policies in such a way that they cater for increased efficiency in economy, promote competition, raise revenue for the government and promote empowerment (Privatisation Report, 2004:30)

## **2.8 THE PRIVATISATION PROCESS**

The government policy and framework gives guidelines to the privatisation process, which aims to sell governments' property in an open and transparent way with a view to obtain the best possible prices, depending on the nature of

the assets being privatised or the proportion of shares being offered for privatisation.

The process has taken one or both of two basic forms, namely turning over small businesses to entrepreneurs where these were not already in private hands, and/or restructuring larger businesses into commercially-based operations. The technical process of privatisation has been accomplished by a wide variety of means, determined according to national circumstances and priorities (Mason and Talbot, 2002:103).

In most countries, South Africa included, the focus of government activity has been directed towards technical issues surrounding the transfer of ownership. Governments have often sought to affect the process of ownership transfer from public to private hands as quickly as possible, according to Bayliss (2002:15).

Significantly less attention has to be devoted to the overall process of privatisation as a major cultural shift and massive change initiative involving human factors which have been planned for, implemented, and then followed up, if all the objectives of privatisation are to be achieved and sustained (Bayliss, 2002:21).

It can be argued that the privatisation process has accelerated rapidly in the late 1980s and 1990s, with both the increasing pace of industrial globalisation and the fall of communism, which has led to widespread economic restructuring. Thus the privatisation process has been at the core of the national economic regeneration (Wilde, in ILO Paper, January 2004:19).

- For successful privatisation the following is essential:

### **2.8.1 Identification of assets**

The first step is the identification of the entity or entities to be privatized. The government chooses its candidates for privatisation in consultation with the relevant ministry and submits a summary of a proposed transaction to the board.

The summary justifies the need for privatisation in the property, outlines the likely mode of privatisation and sometimes seeks guidance on issues relating to such matters as pricing, restructuring, legal considerations, and the regulatory framework. Once endorsed by the privatisation board, it is submitted to the cabinet or sub-committees for approval (Privatisation Report, 2004; 32).

### **2.8.2 Hiring of Financial Advisors**

This step involves the identification of policy issues and the development of options for resolving these issues. Financial advisers evaluate the enterprise and provide options on timing and method of selling the assets. The government and its financial advisers analyse the feasibility and options for privatizing the enterprises identified.

The analysis examines:

- The economic performance, efficiency, profitability, and earning potential of the enterprise.
- The internal structure and management of the enterprise.
- The characteristics concerned and requirements of potential buyers and investors.
- The policy issues that need to be resolved before privatisation.
- Any restrictions on sale – for example: government shares, golden shares, or terms and conditions.

For marketable enterprises, the financial advisors will value the firm and report on privatisation options. This report will help the government to decide whether and how to proceed (Privatisation Report, 2004:38).

### **2.8.3 Privatisation plan**

According to the Privatisation Report (2004:42), once the government decides to privatize a state enterprise, it should prepare the privatisation plan with its advisers. This plan should include:

- a communication plan;
- a plan to resolve the public policy issues surrounding the privatisation; and
- a plan outlining the method of sale, i.e. evaluating the condition of the assets and examining the accounts of the company in order to place a value on the company. This may include recommendations or any needed restructuring in addition to specifying the number of shares or assets to be privatized. The plan is then submitted to the board or cabinet for approval.

The researcher is of the opinion that the outlined process to plan the selling of state assets is acceptable in the sense that it is objective and will be passed through the cabinet for approval. This gives it a legal and official status.

### **2.8.4 Obtaining Approval**

Legislation should be passed before sales transactions start. The sales process becomes needlessly complex if legislation is pending when the company is brought to market (Kerf, 2000:64). Therefore, before any transaction of any kind can take place the legislation should be in place. This will safeguard and make the transfers official.

### **2.8.5 Sale**

This step involves implementation or transaction, where the government and its advisers make the sale through a binding or public offering.

According to Kerf (2000:68), the issue that arises during the sales transactions will vary according to whether the privatisation is a public offering, trade sale, negotiated sale, or mixed sale. An initial public offering requires the enterprise being privatised to be of sufficient size and quality to justify a public sale or shares. Enterprises that do not meet these requirements are sold through a trade sale (third party sale) of assets or shares using an open bidding (auction) process. A negotiated sale to a strategic buyer is another alternative, though in most cases the government will receive less than it would through an active, open bidding process.

Finally, the government can use a mixed sale, combining a trade sale with a public share offering, particularly if a strategic buyer is being sought for a significant block of shares (Kerf, 2000:71).

In summary, the privatisation process is lengthy for a major transaction mainly to ensure transparency in the process. After receiving approval for the privatisation, major transactions should be closed, then financial advisers should be appointed, and then the financial adviser should complete its legal, technical, and financial plan and propose a privatisation strategy. Following the approval of its strategy comes the marketing and bidding process, the obtaining of approval and finalization of sale documents, and the closing of transactions (Awake, 2005:74).

The long process in privatisation is said to have often been caused by waiting for the necessary regulatory framework and sectional policies to be put in place and for any needed restructuring to occur.

Generally, the main argument for privatisation is that it will enhance efficiency in addressing social needs. The argument assumes that South Africa has a relatively efficient market from a social point of view, and very unequal incomes. Private providers have little incentive to serve the poor and consequently they cannot simply take on the developmental role of the state.

Another factor is that South Africa has inherited unequal distribution of income and, from the researcher's point of view, this has been aggravated by the massive losses of formal jobs in the past decade, fuelled in part by the downsizing in the public sector. As a result, despite the improvement in government services to the poor, income distribution has not improved.

## **2.9 ARGUMENTS FOR AND AGAINST PRIVATISATION**

Various arguments were advanced by many proponents of privatisation. Kerf (2000:234) identified the arguments in favour of privatisation and classified them into four main categories:

- **The efficiency argument** emphasizes the efficiencies of state owned enterprises and suggests that the private sector is likely to produce better results and higher profit.
- **The ownership argument** makes the assertion that the state owned enterprises problems are inherently associated with the form of its public ownership and that managers of such enterprises have no stake in them and lack the incentive to run them efficiently.
- **The distortion argument** is more on a macro level and is related to the distortion created by government intervention in resource allocation.

- **The fiscal argument** is also linked to the structural adjustment approach, with emphasis on budgetary deficit as one consequence of too much control from the government.

Each of the four main arguments and their challenging counter-arguments has convincing reasoning and empirical supportive investigation.

In the literature it was observed that although most developing countries and many industrial nations are implementing privatisation policies with some degree of success, privatisation has proceeded far slower than economic reformers and political leaders had anticipated.

Despite formidable challenges to privatisation in some countries and its slow pace in others, the literature suggests that private enterprises in developing countries are playing a more important role in providing goods and services previously provided by state owned enterprises or government agencies.

Literature further suggests that privatisation tends to be more successful where markets are already operating efficiently. On the other hand, the process is likely to remain slow in countries lacking strong capital markets. Prokopenko (1995:38) further states that there are two challenges in implementing privatisation policies:

- Establishing and managing the appropriate economic environment; and
- establishing and effectively managing privatisation processes and procedures.

In many developing countries, the first and most important challenge is that of establishing an appropriate economic environment for privatisation and private enterprise development.

## **2.10 CONCERNS OF PRIVATISATION**

Viewing the process of privatisation, there are a number of important concerns which have to be addressed.

The population has to be convinced that privatisation is not simply selling to the small group of elite, exploitative, and often foreign private owners.

Employees and trade unions have to be persuaded that efficiency improvements arising from privatisation and the consequent changes in behaviours and practices and job losses are actually in their medium- and long-term best interest.

Managements have to positively embrace the introduction of massive and disruptive change and must accept responsibility, accountability and personal risk.

Clients and customers need to believe that change is in their best interest and will result in more choice, better quality, and reduced prices.

Investors (national and international) have to be persuaded to put their cash and resources into the project.

Government officials have to accept the appropriate role of the government to manage the economy at a macroeconomic level.

All of the above-mentioned stakeholders have to be persuaded that privatisation is the right way forward for the national economy and, equally importantly, that the technical processes of privatisation will be conducted in an efficient, fair, and transparent manner (Wilde, 2004:47).

Literature indicated that the technical process has proven not to be efficient, fair, and transparent as initially expected, and that a lot of problems, challenges and resistance, especially from labour, were experienced.

Perhaps most crucially, those individual entrepreneurs and managers who are to take control of the industry need the skills and support to be able to carry out the major changes that will be necessary to make a success of privatisation. Much is said in the national reports about the need to introduce western standards of business management. In truth, from the researcher's observation, relatively few western managers and management teams would be capable of accomplishing the kind of change programs which need to be achieved in many newly privatised companies within the political timescales established for completion.

## **2.11 GOVERNMENT RESPONSIBILITIES TOWARDS PRIVATISATION**

According to Prokopenko (1995:36), the following needs to be implemented: political reforms, appropriate degrees of democratization, decentralization of decision making, deregulation of industries, and services to allow private enterprises to operate efficiently without undue government intervention and control.

The second challenge facing the government is to develop and manage the procedures for transferring state owned to private ownership.

In addition, developing clear and transparent procedures was also a challenge to the government.

According to World Bank Review on Privatisations (1992:39), the lack of transparency is a major constraint to an effective privatisation process. The report suggests that transparency can be achieved by clear and simple selection criteria for evaluating bids, clearly defined competitive bidding procedures, disclosure of purchase price and buyer, and supervision of the program.

The researcher is of the opinion that the state must enhance social protection services, i.e. the basic services provided to ensure no South African lives in extreme poverty. The services are critical to raise productivity by, for instance, improving skills, health and security. In addition, improvements in household infrastructure, such as water and electricity, should lay the basis of home-based employment.

In effect, poverty in itself creates poverty by lowering productivity and employment. The market cannot break the vicious circle, since, in the short-run, the poor majority cannot afford to pay the full cost of basic services.

In general, the argument that private sector services are more efficient than public sector services is not so much a reality in South Africa, because the majority cannot access the private sector services.

## **2.12 IMPACTS VERSUS EFFECTS OF PRIVATISATION**

While most technical assessments classify privatisation as a success, it remains widely and increasingly unpopular, largely because of the perception that it is fundamentally unfair, both in conception and execution. Privatisation has not been a popular reform, especially when the views of labour movements are analysed.

On the other hand, economic assessments of the effects of privatisation, economic welfare and growth in developing and transitional economics have generally been positive. However, there has been a loss of jobs in many countries including South Africa, which has damaged privatisation reputation even among proponents of the liberalizing reforms of the last two decades (Barja, 2000:240).

At the heart of criticism is the perception that privatisation has been unfair; hurting the poor, the disenfranchised, and in some cases beleaguered workers, benefiting the already rich, powerful and privileged.

Privatisation is seen as putting a large number of people out of work or forcing them to accept jobs with lower pay, less security and fewer benefits, as the prices of goods and services sold rise, and providing opportunities for the environment of the corrupt, and generally making the rich richer, and the poor poorer.

The complaint is that, even if privatisation contributes to improving efficiency and financial performance, it has negative effects on the distribution of wealth, income and political powers. The negative perception is widespread and growing. According to May (2002:2), 63 percent of people surveyed in the spring of 2001 in 17 countries in Latin America disagreed with the statement that "privatisation of state assets has been beneficial".

It can be argued that the concrete outcomes of privatisation have, in many cases, been better than people think. Nonetheless, perceptions count greatly in and by themselves if they result in political opposition sufficient to slow, halt, or reverse a process that would bring efficiency and growth gains to society. Moreover, the actual distributional effects of privatisation matters, because inequality itself matters as it can hinder growth in developing economies where

institutions and markets are weak, but it does not have much effect in developed countries (Barro, 2002:217). In developing countries, government policy either reinforces or fails to offset those factors.

Privatisation effects are further discussed and classified in the following:

### **2.12.1 Distributional effects**

The distributional effects of privatisation are measured on the consumption or welfare of different households of different initial groups. The consumption of households depends on their income and the prices they face. Their income in turn depends on their assets, including labour, human capital, ownership of land, and other physical or financial capital, and the return on their assets (Vernon, 1988:760). Therefore, from the above statement, it can be stated that the distributional effects in households differ according to the consumption and economic status of a particular family, leading the researcher to believe that distributional factors play an important role in determining the extent to which the family is affected by privatisation.

The following are areas affected by the distributional shifts of ownership changes:

### **2.12.2 Distribution of assets**

Privatisation usually involves a shift from an asset owned by taxpayers as a whole to one owned by a private person. The effect of the changes in ownership on long-run distribution of incomes between taxpayers and new owners ultimately depends on both the initial price and the post-sale stream. Privatisation may also confer or permanently deny unrealised pension benefits, or may create or eliminate an asset of employees (Vernon, 1998:81).

### **2.12.3 Return on assets – labour**

According to labour perspective, privatisation changes the distribution of income. For example, low-income workers are more likely to be laid off than high income workers. This could be attributed to their level of education or the positions they hold in the company. Thus, workers might have a more difficult time finding alternative employment or if they find employment, it may be less remunerative than either the work they left or the work generally obtained by higher-income workers who were also dismissed.

Union leaders often allege that cost-cutting measures in preparation for sale, or by new private owners, fall disproportionately and unfairly on workers. They also allege that poor management and poor government policies are major causes of the financially troubled state of public firms, but that it is often the price paid for reform (World Bank, 1992:210).

### **2.12.4 Return on assets**

Privatisation can also change the return on physical capital that is reallocated. If new private ownership is more efficient than state ownership, the return on the pre-existing capital (profit) will raise. This can contribute to good rewards to new efforts (World Bank, 1992:218).

However, as indicated by literature, not all people benefit from the privatisation. Privatisation only contributes good rewards to a few people.

### **2.12.5 Prices and access**

According to the World Bank (1992:221), privatisation can affect prices differently across income groups. On the other hand, prices can fall. If private

management is more efficient, some of the savings might be passed on to consumers, meaning that consumers might benefit from the process

### **2.12.6 Fiscal effects (financial)**

It is argued that privatisation may affect real net income of taxes if its fiscal effects are to reduce the tax burden differentially across households, or increase the benefits of government services that are funded by tax flows, such as education and health.

The fiscal effects of privatisation on income distribution, which come through any changes in revenues and in expenditures, are indirect. Reduced tax revenues and any increase in public expenditures probably benefit the relatively poor. Thus managing the fiscal consequences has been a serious problem for governments (World Bank, 1992:231).

### **2.12.7 Re-ownership**

Disappointing outcomes of privatisation is particularly common. For example, in many transitional countries privatisation resulted in a mass and rapid transfer of assets ownership from society at large to a small group of agile, daring, and thoroughly unscrupulous characters.

One can argue as Aslund (2001:23-26) does that despite the admittedly unfair and often illegal manner of the asset allocation, these owners have now made the assets productive. The results obtained are superior to the alternative of leaving the firms in the hands of the state, and the resulting distributional loss is a bearable price that must be paid for the efficiency gained.

### **2.12.8 Employment**

Concerning employment, public enterprises are overstuffed while preparing for privatisation, and so after privatisation employment numbers need to be cut (Kent, 1987:114). The researcher's conclusion is that more people have lost than gained jobs through privatisation, but the researcher cannot come to any hard conclusion about the overall distributional effects.

Literature on employment provides little detailed information about the incidence and size of "severance" payment or the time required to find alternative employment. Many of those who were dismissed from employment upon privatisation were neither rich nor very poor; job losses in many cases hit the somewhat privileged middle class or working class the hardest (Aslund, 2001:29).

### **2.13 GLOBAL EFFECTS OF PRIVATISATION**

The following countries are discussed because their situation concerning privatisation is almost similar to that of South Africa, they are third world and developing countries. On the other hand America, United Kingdom and other European countries do not have any resemblance to South Africa as they are first world countries.

Although growing, there is still a shortage of relevant literature on the distributional effects of privatisation. There is some evidence that in the short-run, privatisation can worsen wealth and income distribution.

Assets formally held (in theory) for the public at large are now held by a small number of owners. Jobs are usually lost, prices often go up, and aggressive collection fees hit the poor and middle class. Often sales revenues are absorbed

by the rising cost of public debt. Proponents of privatisation usually argue that privatisation improves the operating and financial performance of business, increases the financial resources available to government, and leads to expansion of utility coverage, all of which still make privatisation a pretty good deal for the poor (Kent, 1987:102).

In contrast to the above statement, privatisation in South Africa increases the cost of living to a point where the majority of the people lose their jobs, and this aggravates poverty where people live under a stressful situation. Thus it affects them socially as well as economically.

### **2.13.1 Cote d' Ivoire (Ivory Coast)**

Jones, Tandon and Vogelslang (1990:98) studied privatisation in Cote d' Ivoire and concluded that privatized firms as a group have substantial benefits. The firms performed better after privatisation; better than they would have had, had they remained under public partnership. Moreover, the set of transactions as a whole contributed positively to economic welfare. This is not the case, however, in South Africa, where the assets are still under state control. Privatisation changes came from a number of effects, including an increase in output investment, labour productivity, and intermediate-input productivity.

### **2.13.2 Peru**

Torero and Pasco-Font (2001:190) applied techniques to measure the income distribution effects of privatisation in Peru. The privatized utilities expanded coverage dramatically, especially in telecommunications and electricity. Quality reliability of all services increased greatly in privatized firms, with more modest quality improvements in water supply. On the other hand, it was stated that prices rose significantly in all sectors, including water supply. Peru's situation is

similar to South Africa where state-owned assets such as Telkom, Water Affairs, and Eskom were privatized, and the privatized firms' service charges increased significantly to unaffordable levels. This again had an impact on the poor majority, of which most are now faced with retrenchment.

Investment had lagged under state ownership. The authors concluded that the overall short-term distributional effects of privatisation on income were slightly negative, but that they varied by sector, with the most privatised firms doing better than the rest.

### **2.13.3 Chile**

In Chile, Parades (2001:89) identified three ways for privatisation to affect distribution:

- How government uses proceeds
- The structure of sale
- Post-sale prices and coverage policies

Regarding wealth effects, the Chilean government made efforts to enlist the support of affected workers. Both those retained and those laid-off could purchase shares, using deductions from future pay or an advance on severance payments. Moreover, the government guaranteed that, should the value of purchased shares be lower than the amount the purchases originally paid, the difference would be paid when these purchasers reached their normal retirement date. Workers exercised this option of purchasing shares. The government also offered incentives for the first small shares holders in the general public.

In the South African situation, no literature suggests that workers were given the option to buy shares in the state-owned companies. The information was also not spread to the ordinary working class where they could have been given the

option to buy shares. Therefore it can be suggested that only those people or companies who had connections and finance received the privilege to buy those shares if applicable.

A study of the access to services and prize inputs showed a decline in the percentage of households lacking services. Huge gains were recorded in accessing telephone services, especially in the lower income sectors. This contrasts a much more modest gain in non-privatised water and sewerage.

Nationally, in South Africa, coverage for electricity and telephone services has generally increased, mainly due to the introduction of mobile phones and government subsidies to rural authorities to underwrite telephone services in these areas.

Electricity is said to have declined significantly after privatisation. As is often the case, local telephone tariffs rose post-sale, while the cost of long-distance and international services decreased. It may be that low-income consumers use local services relatively more than upper-income groups. If this is the case, then price shifts presumably favoured wealthier households (Parades, 200:94).

The above-mentioned situation correlates with the South African situation where literature indicates that the most basic services are privatised, for example water and lights have increased in tariff to a point where households in the low-income groups are affected and retrenchment only aggravates the situation.

#### **2.13.4 Buenos Aires**

Delfino and Casarin (2002:210) measured the changes in welfare of consumers in the Buenos Aires (Argentina) metropolitan region as a result of the privatisation of electricity, telecommunications, and natural gas and water

sanitation companies. Large increases in production and coverage were observed following sale, and large improvements in service reliability and quality were also reported. The literature indicates that access to services increased, especially for the poor.

### **2.13.5 Spain**

When studying privatisation in Spain, Barja (2001:91) assessed the distributional effects of deregulation and partial privatisation in Spain's utilities from 1996 to 2000. He discovered that all households experienced a welfare gain following the reforms, though the poorer households benefited less than average, which implies a negative distributional effect. The situation in Spain is a direct opposite to that of South Africa, where literature suggests that privatisation has affected households negatively to the extent that they now depend on the government grants and the welfare system for survival.

### **2.13.6 Bolivia**

Bolivia also privatized its largest enterprises and called the process "Capitalization". This was partly to avoid the negative connotations of the word privatisation, and partly to reflect the fact that all money raised from the sale of equity was ploughed back into the divested firms. No proceeds went directly to the state treasury. According to Barja (2001:89), there are reasons why prices changed following the reforms:

- To meet cost-recovery and investment requirements;
- to make up for the disappearance of subsidies; and
- to deal with shifts in substitutes.

In general, Bolivia appears to be a case of relatively positive distributional effects of privatisation.

### **2.13.7 Brazil**

In Brasil, Marcedo (2000:192) indicated that privatisation impacts on assets distribution generated enormous sums for the government. Change of ownership made the companies more efficient and their profits brought increased tax revenues. However, in terms of distribution, direct gains from sales went to the wealthier segments of society, to foreign investors, and to the labour elite. Marcedo (2000:194) concludes that privatisation has probably worsened asset and income distribution in Brazil.

Privatisation does not only have negative effects. It also has gains, as outlined by McHale and Pankov (1999:210), who state that the largest gains from privatisation have accrued to the politically well-connected and to enterprise insiders. Their statement is based on the documented declines in production, the rise of unemployment, the increase in gross income, inequality in almost every country, that privatisation transferred a large amount of property and wealth to a small group of people, therefore, wealth distribution has worsened.

The above statement correlates with the situation involving BEE (Black Economic Empowerment) in South Africa, where most of the funds and privatized parastatals are being channelled to the politically-connected few, in the name of empowerment.

## **2.14 PRIVATISATION EFFECTS ON LABOUR AND LABOUR INCOME**

The South African labour market expressed its views on various occasions. These will be compared to other countries. Labour unions' representatives acknowledged the undeniable: too many state-owned enterprises are inefficient

and unprofitable and are kept alive only by government subsidies and soft credits.

Labour representative argues that The World Bank (2001:123), privatisation is not necessary because the state owned assets need not run at a loss; all they require is good management, less political interference, a competent board of directors, and especially more rational pricing policies.

### **2.14.1 The National Union for Mine workers (NUM)**

According to NUM (the National Union for Mine workers) privatisation's aim is to weaken organized labour, because it always hurts labour and mainly or only benefits the domestic elite and foreign transitional firms. The aim of privatisation is said to reduce labour costs and numbers, and to break union power.

- Politicians and bureaucrats make errors that causes state owned assets to perform poorly, but only labour is asked to pay the costs of reform.
- Privatisation is not home-grown – the IMF (International Monetary Fund), the World Bank, and other IFIs (International Funding Institutions) impose it on countries.
- Workers dismissed as a result of privatisation have greater difficulty in finding other work, and when they do it is almost always at much lower salaries, with few or no benefits, and with much reduced job security. Both public and private sector employment gives workers a life of dignity and respect.
- Privatisation therefore replaces unionized permanent and pensionable staff with less costly casual unorganised labour on less secure contracts (Marcedo, 2000:197).

### **2.14.2 The Congress of South African Trade Unions (COSATU)**

Proponents of labour worldwide have been vigorous and persistent critics of privatisation. COSATU has been making more noise than any other labour movement in any other country. The union consistently portrays privatisation as having a negative effect on income distribution and worker welfare, and states that retrenchment as a result of privatisation is a direct attack on social services on which working families depend.

The union, COSATU strategy of engagement suggests that socio-economic development must be focused on, in order to run sustainable and logical business operations. The labour unions regarded this as a weakness on the part of government, and they avoided the temptation to focus only on the issue of job losses (COSATU News Letter, 2003:51).

The labour movement COSATU (COSATU News Letter, 2003:73) explains that the trade-off for engaging in the issues of restructuring was that efficient operations would be necessary to save the national organization under study from being privatized, and that would mean accepting job losses. Labour was engaged in the privatisation process by attending all the meetings with the government.

The labour unions further state that management participation in the process was not crucial, as neither government nor labour have access to the kind of information and expertise that they have. Their participation was also crucial to ensure that they bought in to the final agreement.

The researcher observed that the labour movement pushed their agenda by publicity and mass attention in their ongoing campaign against privatisation, and by their participation in the international transport federation campaign they

ensured that the government took their argument seriously. The union also captured public attention by using the newspapers, radio and television.

### **2.14.3 South African Transport and Allied Workers Union (SATAWU)**

SATAWU's engagement with restructuring revealed the government's ideological predisposition towards privatisation. Ironically, it is labour that is generally accused of an ideological attitude to privatisation. According to the department of public enterprise, privatisation would introduce efficiency, competition and cheaper services. This is in contrast to the trade unions' opinion, which is that privatisation will lead to job losses and ultimately to poverty among the working class.

The following statements lie between the propositions and conclusions of the government and labour unions:

- According to labour, government owners have treated state owned assets as employment generators and maintainers.
  
- Labour unions, representatives of sub-national governments, and private investors mostly prefer to have the government attack workforce size well in advance of divestiture, rather than leave it to the new private owners. Unions think (usually correctly) that they will be able to extract more lucrative severance terms from the government as opposed to private negotiators. On the other hand, the investors normally wish to avoid starting off their tenure with a bitter public, potentially nasty disputes over jobs and severance payments.
  
- The government is always keen on downsizing and they prefer to address it in advance of sale, in order to keep social peace.

- However, even though trade unions find government downsizing marginally preferable to private ownership, they would prefer no downsizing whatsoever and they have mobilized all their members to oppose privatisation.

Various authors agree with the labour unions when they argue that privatisation can and does lead to job losses, particularly in highly protected and severely overstaffed firms. The question is at what stage the trade unions and other workers' representatives should be involved in the restructuring process. Kikerie (2004:621) agrees that privatisation leads to layoffs and leads to workers having difficulty in finding alternative jobs. Even so, privatisation does often create new employment and benefit society as a whole through better service, while employees in privatized companies gain through higher wages.

On government versus private sector restructuring, there are many different views; there is no "cure-all" strategy, but each circumstance warrants its own solution, based on the extent of overstaffing and the nature of labour relations.

On severance payments, many feel that voluntary departure programs are preferable to avoid retrenchment, even if it means paying higher severance packages. But care has been taken to avoid adverse situations where the best workers are the first to leave, and to ensure that packages are sufficient and sustainable (Kikerie, 2004:631).

Kikerie (2004:42) stated that it is very important that a government or any company planning to retrench employees should consider the following:

The employer should explain to employees in detail what retrenchment entails. As a follow-up of privatisation, the employer should further explain it is the termination of employment to which an employee had been appointed, other than a temporary appointment which may be terminated at any time.

Privatisation and retrenchment relate to each other as a continuing process where ultimately the employees lose their jobs (Kikerie, 2004:39).

The term retrenchment is used because it covers a wide range of dismissals that do not essentially relate to the conduct or capability of a worker. It is evident that retrenchment will have a substantial impact on workers involved. A poorly executed retrenchment process can lead to conflict. Therefore, the process needs to be based on clear grounds that both employees and representatives understand. There should be compliance with national laws and with the terms of collective bargaining agreements.

This not only ensures that the employer is doing the right thing, but it also minimizes legal issues and any risk arising from the retrenchment process. Key aspects in this regard include the nature of consultations with trade unions and stakeholders. Also important are the transparency and fairness of the selection criteria used to select employees for dismissal. The company should avoid misinformation and encourage good communication, and should make a full and frank disclosure of information that can help avoid rumours and misinformation.

## **2.15 GENERAL ANALYSIS ON PRIVATISATION**

Overall the researcher can argue, based on literature, that government policies praise market forces while calling vaguely for regulation. Ultimately, these policies make three assumptions:

- That competition will lead to lower costs and better quality services for all consumers;
- that regulation can control any negative effects; and
- that privatisation will bring additional resources at no cost to the state or consumers.

The first assumption presupposes that South African markets are socially efficient. This assumption does not hold, either in theory or in practice. South Africa has a particularly unequal distribution of income, but the market is only designed in such a way that it reaches those who can pay or buy; it does not raise living standards for the poor.

The policy framework argues that, despite privatisation shortcomings, the market will bring about efficiency. On the other hand, privatisation also leads to inefficiency through mass retrenchments, as private managers close down less profitable operations.

For instance, the government's plan for the national organization under study would have put 30, 000 jobs at risk.

Generally, most policies on privatisation are not linked to the targets for service delivery, or targets are inadequate and poorly publicized (Kerf, Neto, I& Geradin: 2005).

Kerf (2000:37) suggests that before any retrenchment can take place, employees should be informed and options be opened to them for payments of their salaries. He described that payment must be rolled over a superannuating fund.

It further states that if an employee chooses this option, there will be no further benefits payable to him or his eligible partner or children. The other option is a total deferred pension, where the employee's benefits are paid out when he/she reaches a minimum retirement age (Kerf, 2005:20).

Generally, advocates for privatisation believe that the key to a good outcome lies in developing and implementing a retrenchment procedure that achieves the

commercial aims of the process while minimizing the impact of job losses on workers and their families.

These should be based on widespread consultations, particularly with workers and their representatives, and should seek to ensure that the selection of workers and dismissals are based on principles that are fair and transparent and do not discriminate against any group (Kerf, 2000:42).

In addition, Kikerie (2004:39) states that a well-managed retrenchment plan can help avoid a host of problems and results in better outcomes for the company, its employees and their families, as well as the community.

Finally, governments hope privatisation will make up for under-budgeting. Yet private investors will only invest if they can make a profit, either from government subsidies or higher tariffs. If private capital were inherently more efficient than the public sector it could still cut costs for the state, but almost no evidence exists that private managers are more skilled than public service ones.

## **2.16 CONCLUSION**

The arguments about privatisation are flawed; they essentially start by assuming that markets are efficient due to privatisation. This assumption is based on examination of South African realities. They also place an unwarranted belief in the governments' ability to regulate private interests, irrespective of market imperatives.

Furthermore, literature suggest that although privatisation is regarded as an essential instrument for transforming government-controlled economies into market-orientated systems, it is neither a base for all economic ills associated

with poverty and underdevelopment, nor the way for promoting economic growth and development. For privatisation to be acknowledged, successful reforms in management require coordinated action, mainly financial, fiscal, administrative system and social readjustment, as the procedure should be based on transparency and coherence.

Ultimately, it is clear that fiscal policy is the primary driver of privatisation policies. Yet if market forces are not efficient, privatisation will not reduce costs to society – indeed it may well increase them. It merely takes the costs off the budget.

Objectives and the process of privatisation are generally the same globally; all countries practicing privatisation follow more or less the same procedures and processes. As such, there is uniformity in privatisation. Therefore privatisation, as discussed, has objectives, process and procedures, effects, advantages and disadvantages, and therefore it can be either positive or negative depending on how a person views it.

The researcher's reading of literature opened broad avenues for further research on privatisation. Further research should aim to improve the conflicting results generated to date, and to improve research methodologies.

## **CHAPTER 3**

### **EMPIRICAL STUDY ON THE IMPACT OF PRIVATISATION ON EMPLOYEES AND THEIR FAMILIES**

#### **3.1 TERMS OF REFERENCE**

The study was guided by the following terms of reference based on objectives:

- Understanding privatisation.
- Assessing the extent to which the former employees have participated in the formulation of restructuring process that led to their retrenchment.
- Analyzing their level of education and their skills.
- Analyzing their years of employment with their former employer.
- Assessing participation of workers in the management decisions concerning privatisation.
- Analyzing the financial, economical and psycho-social effects on retrenched employees.

##### **3.1.1 Methodology**

The methodology used by the researcher in the study to assess the psycho-social impacts of privatisation comprised of three main components, namely:

- ❖ Reviewing relevant literature;
- ❖ collection of data from households/individuals by means of a semi-structured interview; and
- ❖ analysing data through transcribing audiotapes into written research notes and identifying themes from the data.

### **3.1.2 Data collection**

Data was collected through semi-structured interviews. The researcher conveyed to the interviewees the importance of the interview. The researcher explained why she wants to obtain answers and perceptions on privatisation from employees and their families. One-on-one interviewing was relevant where a general or guided interview was applied. This approach provided the researcher with the prepared basic guideline to cover all relevant questions (Greeff, 2002:297).

The purpose was to get answers to question. Flexibility is also important, as it helps to elicit the respondent's story.

The researcher, when asking a question, chose her words carefully in order not to convey to the respondent expectations of a needed response. Communication techniques, such as paraphrasing, were employed in order to make it clear to the respondents as to what the actual meaning of the questions are (De Vos, 2002:95). All interviews were tape-recorded with the permission of the participants. The researcher employed the technique of more listening and less talking, structuring questions in such a way as to avoid sensitive questions.

### **3.1.3 Data analysis**

After employing the interviewing technique, the researcher analysed data collected. According to De Vos (2002:341), data analysis is the process of bringing order, structure and meaning to the mass of collected data. The steps employed are as follows:

- Data collection and recording. Tape recordings were made.
- Managing data; this was done away from the site, where data was organised into labelled computer files. This helped the researcher to

retrieve information.

- By listening to the tape recordings, the researcher listed, noted and transcribed data. Memos were written that included ideas and key concepts.
- Describing, classifying and interpreting. Irregularities were noted; information was taken apart, categories were created, and themes and dimensions of information were identified.
- Thereafter, data was interpreted and recorded in written format.

## **3.2 PILOT STUDY**

De Vos (2002:211) describes a pilot study as a pre-testing of a research design. Pilot study is the study conducted prior to the real research to find out whether the research is viable or not.

It is also referred to as a dress rehearsal for the main investigation. This gave the researcher an opportunity to implement changes, if necessary, prior to the main research. A pilot study provided the researcher with a broad background of a planned investigation.

### **3.2.1 Pilot test**

According to Fouché (1998:158), it is essential that the questions be thoroughly pilot-tested before being utilised in the main investigation. A pilot test is conducted to make sure everybody understands the questions in the same way. The aim of the pilot test was to remove uncertainties and ambiguities.

A pilot test was conducted on two respondents who have similar characteristics to those of the target group from the main study and who were excluded from the main study. This was done prior to the main study. It gives an indication as

to whether the question was relevant, or will bring deficiencies in the measurement instrument to the fore. A pilot test determined changes or improvements needed (Fouché, 1998:159).

### **3.2.2 Feasibility of the study**

Permission was obtained from the researcher's place of work to conduct the study. The permission from work provided the researcher with an opportunity to arrange for time off to conduct a research. A letter of notification or written permission to conduct the study was obtained before the researcher started with interviews.

Interviews were conducted mostly on weekends, because the majority of the respondents were available on weekends. Permission from respondents was obtained through an informed consent letter prior to interviewing the respondents.

The researcher used her own transport and carried the costs.

### **3.3 RESEARCH POPULATION SAMPLE AND SAMPLING METHOD**

Strydom and De Vos (1998:190) refer to population as the individuals who have specific characteristics, and samples as elements of the population considered for actual inclusion in the study. Arkava and Lane (in De Vos 2002:198) confirm that a sample comprises of the elements of the population considered for the actual inclusion in the study. The major reason for sampling is feasibility.

"Snowball" sampling was selected for this research as a type of non-probability sampling. According to Baker (1998:159), in "snowball" sampling the researcher approaches a single respondent who is involved in the phenomenon to be

investigated. This helps to gain information on another potential respondent who meets the same criteria. The initial person thus identifies further persons who could make up the sample. The process continues until the required number of cases to complete the sample is reached.

A retrenched employee and his spouse known to the researcher were identified and interviewed, and they in turn identified and referred the researcher to other retrenched employees in a similar position. The employee and his spouse were interviewed simultaneously.

The population of this study was 15 former employees, who are living in Mabopane and working in Pyramid and who have been retrenched since 2001, plus their spouses. The total number of ex-employees actually meeting the criteria is not known to the researcher.

The research was conducted over a period of three months, between July and September 2007.

From the previously identified employees in the pilot study, those employees were asked to identify their colleagues living in the Mabopane area who had been retrenched as a direct result of privatisation by the same national organisation

A sample of respondents was drawn from the former employees affected by retrenchment who reside in the Mabopane area. In addition, the study used the snowball method as a type of non-probability sampling.

### **3.4 EMPIRICAL FINDINGS, ANALYSIS AND INTERPRETATION OF EMPIRICAL DATA.**

#### **3.4.1 Introduction**

The research was conducted to investigate the impact of privatisation on employees who were retrenched, and to find out how it affected their lives and their families. Data was collected over a three-month period. The empirical data was collected, analyzed, interpreted, and presented. The analysis of data refers to deriving some meaning from observations made during the research project (Monet *et al.*, 1989:69).

The researcher formulated a question after an in-depth literature review. The question was designed in simple English to make it user-friendly so that the respondents can easily understand it. The key terms “retrenchment” and “privatisation” were explained to the respondents and the explanations helped to facilitate understanding of the research as a whole. The researcher assured the respondents of anonymity and confidentiality in order to adhere to ethical practices.

A pilot study was done on two employees who do not form part of the final sample. The respondents were requested to answer a given question to the best of their ability; the researcher facilitated the process with probing to encourage the respondents.

#### **3.4.2 Description of the empirical survey**

##### *3.4.2.1 Procedure*

Data was gathered by interviewing 15 former employees and their families, that is to say spouses and children, who were affected by privatisation and retrenched. Three families were interviewed as a combined effort, whereas five

were interviewed with spouses, and seven as individuals only. The respondents were asked one question, namely “how has retrenchment impacted on you and your family?”, and were requested to elaborate.

The researcher herself interviewed the respondents, and responses were captured on tape. All the potential respondents honoured the appointments, even though some respondents were interviewed later than the agreed time of appointment.

## 3.5 PRESENTATION OF DATA

### 3.5.1 Profile of respondents

Respondent	Area of origin	Number of dependants and marital status	Gender	Age	Race	Previous job title	Period since retrenchment due to privatisation	Period of employment	Qualifications
1.	Mamelodi	Married, 4 children, 5 grandchildren	Male	57	Black	Administration clerk	8 years	35 years	Form 5
2	Limpopo Giyani	Married, 3 wives, 10 children	Male	51	Black	Layman	4 years	28 years	Standard 3
3	North west	Married, 4 children	Male	47	Black	Human resource clerk	3 years	15 years	Standard 12
4	Limpopo	Married, 5 children, 4 in technical school	Male	49	Black	Layman	5 years	15 years	Standard 2
5	Limpopo	Married, 1 school-going child	Female	53	Black	Domestic-cleaner	3 years	13 years	Standard 5
6	Mpumalanga	Married, 6 children, 2 still attending school	Male	49	Black	Layman	4 years	14 years	Standard 3
7	Mpumalanga	Married, 5 children, 2 still at school	Male	55	Black	Layman	6 years	22 years	Standard 8
8	North West	Divorced, 3 children	Male	53	Black	Layman	6 years	22 years	Standard 1
9	Mpumalanga	Married, 3 three children, 4 grand children	Male	59	Black	Layman	9 years	22 years	Standard 3
10	Mpumalanga	single	Male	56	Black	layman	6 years	14 years	Standard 5
11	Mpumalanga	Divorced, 3 children	Male	51	Black	Layman	7 years	27 years	Standard 2
12	Limpopo	Married, 5 children, 2 at school	Male	49	Black	Layman	7 years	22 years	Standard 4
13	North West	Divorced, 2 children	Male	51	Black	Layman	4 years	18 years	Standard 4
14	Mpumalanga	Married, 3 children	Male	55	Black	Layman	3 years	27 years	Standard 1
15	Mpumalanga	Married, 2 children	Male	57	Black	Layman	5 years	23 years	Standard 4

### **3.5.2 Discussion of data:**

The findings confirmed that the majority of employees affected by privatisation are between 45 and sixty 60 years old. Privatisation seems to affect employees in their mid-life years as well as those closer to retirements, which have been with the company for at least more than 10 years. This could be attributed to the fact that the company needs to improve services and introduce new technology that can improve service delivery and maximize profit. Therefore older employees make way to new, young and qualified staff members.

Only one female respondent was retrenched. This indicates that the company focused on employing male workers, which accounts for the majority of respondents being males. Ten of the respondents are married with families, three are divorced, and two are widows.

From the interviewed respondents, the findings indicated that only three respondents are skilled workers (respondents 1, 3 and 7), who have at least high school qualifications.

The findings therefore indicate that 12 respondents fall into the category of unskilled workers. Thirteen of the respondents attended school up to primary level. This can be attributed to the fact that the company did not require a high level of education as a prerequisite for employment. According to respondents, there were no skills training offered.

### 3.5.3 Demographic data

#### Gender, language and age of respondents:

➤ **Data**

Respondents 1, 4, 8, 10, 11 and 13 are Tswana-speaking; respondents 2, 5, 7 and 14 are Tsonga-speaking; respondents 3 and 12 speak Northern Sotho; and respondents 6, 9 and 15 are Venda-speaking.

➤ **Discussion of data**

The above-mentioned indicates the home languages of the respondents. The information suggests that respondents speak diverse languages, dominated by Tswana, followed by Tsonga, Venda, and then Northern Sotho.

The other languages like Afrikaans, English, Zulu and other indigenous languages are not represented. Non-representation does not imply that speakers of these languages were not retrenched; it can be attributed to the geographical area that the researcher focused on.

The study suggests that the majority of employees were male. It is explained by the type of work performed by the company. Respondent number 5 was the only interviewed female. This is attributed to the type of work performed by the company. The overall structure of employment shows that the female workers were only employed as domestics (tea ladies and cleaners). Overall, women are still a small percentage of the total workforce. In this case, privatisation/retrenchment was not costly to women, because they are mostly in a labour category of low or specific skill, and thus formed a low percentage of those laid off.

## **3.6 .PROBLEMS EXPERIENCED BY FORMER EMPLOYEES**

Respondents experienced and solved problems differently.

### **3.6.1 Opening own business**

#### **➤ Data**

Respondents 1 and 3 explained that privatisation worked in their favour because they were able to open their own businesses. Respondents 2, 6, 9, 10 and 14 tried to start businesses but they were not sustainable. According to them, it is not easy to manage a business without know-how.

#### **➤ Discussion of data**

The findings indicated that privatisation favoured only two respondents, while the other 13 respondents experienced difficulties.

### **3.6.2 Financial impact**

#### **➤ Data**

Respondents 2, 7, 12 and 14 confirmed that they experienced financial problems. Respondents 9 and 4 disputed financial problems; instead they benefited from retrenchment.

#### **➤ Discussion of data**

Retrenched employees are expected to continue to support their families. According to the study, some households failed to raise school fees for children, meet their daily meal requirements, and even attend to health care. Even in cases where the laid-off employees had been given their terminal benefit packages, it was revealed that packages were not enough to set up sustainable self-help projects.

As a result, the money is not recycled into business, but used to cater for endless family obligations. In the broader sense from the literature, privatisation has been referred to as the procedure of increasing efficiency of the private sector or any policy move to foster private sector development (Sajji, 1990:210).

The researcher, in support of the literature, agrees that privatisation might increase efficiency. However, it affects the working class and the majority do not gain from it. Instead they are retrenched, i.e. sacrificed, to make way for profits. Retrenched employees also do not have the funds to buy shares when these are put up for sale. Although the government's view is that privatisation has had a positive impact on the economy in terms of increased output, income tax revenue and employment levels, the public perception about privatisation is not so positive.

This follows concerns that privatisation has not improved the socio-economic welfare of the majority of employees; instead it has affected their normal functioning. Twelve of the respondents feel that retrenchment, which usually accompanies the privatisation process, has worsened the livelihood of ordinary working-class employees. The social cost of living has escalated to a point where the working class finds it hard to cope and to afford the basic requirements of everyday lives.

Furthermore, privatisation can also lead to changes in employment, wages and benefits of other individuals, and forced restructuring policies, leading to the dismissal of more productive skilled workers.

Literature (Sajji, 1990:211) further indicates that adverse selection problems undermine the effectiveness of public sector labour. These findings provide some empirical support for the notion that privatisation can lead to cost savings and workforce quality improvement through more rational labour market policies.

### **3.6.3 Marital problems**

#### **➤ Data**

Respondent 3 confirmed marital problems, and as a result he is currently not on good terms with wife. They are struggling to make ends meet, due to a lack of income. Respondent 8 confirmed experiencing marital problems due to retrenchment. Respondent 13 also confirmed marital problems whereby even the wife divorced him due to being laid off, for he could not provide for her and the children.

#### **➤ Discussion of data**

According to the researcher's observation, and from the findings, marital problems are normally caused by financial constraints.

### **3.6.4 Psychological impact**

#### **➤ Data**

Respondents 2, 5, 10 and 11 pointed out psychological effects that have affected their normal family functioning, but they did not go for counselling because of a lack of funds. The study indicates that psychological problems were experienced by respondents 13, 4 and 7.

#### **➤ Discussion of data**

The respondents who experienced psychological problems believe that measures like counselling should have been taken to prepare them for the retrenchment. According to the respondents, the services should have been free of charge and performed before the actual retrenchment could take place.

### 3.6.5 Educational impact

#### ➤ Data

The majority of the retrenched employees attained education up to primary level. However, the study shows that most of the employees were illiterate; 13 attained primary education and two had high school educations. The low level of education can be attributed to the fact that the company employed laymen, hence there was no need for an educated work force.

#### ➤ Discussion of data

The interviews also revealed that workers did not attend skills development programs. It was also pointed out that workers in the top categories, such as clerical workers, had access to staff training while the other workers were neglected. At the same time, it was revealed that households with school-going children cannot raise tuition fees to send them to private schools which could provide a better quality education. Instead they send them to government schools where education is less or free.

Findings also indicated that there was no consideration given to developing training programs which provide the employees with skills and opportunities. Respondents 4, 6 and 14 suggested that they should have been given training in small business development, basic literacy and numeracy, for them to survive. Respondents 6 and 15 reflected on the educational problems they experienced.

#### **Quote 1**

Respondent 7: **"My children are now attending technikon, I am struggling to pay their school fees, I am depending on my brother to help me."**

### **3.6.6 Communication impact**

#### **➤ Data**

Twelve respondents, respondent number 2 to number 15, explained that there was no clear consultation and the process was not handled correctly. Employees did not receive information for them to take informed decisions.

#### **➤ Discussion of data**

From the conducted interviews, it became clear that the communication between the management and the employees was not very good. The line of communication seems to have been distorted on some levels where all employees were supposed to receive information. The consultation process did not inform the employees of the available alternatives to job losses. According to the respondents the trade union was consulted, but they do not understand what transpired between the union and their employer or why they could not save their jobs.

The majority of respondents stated that the process was not transparent, and not based on fair and objective criteria (they believed they were retrenched because of their illiteracy, age, length of service, performance record, absence record, skills and knowledge).

### **3.6.7 Severance payment impact**

#### **➤ Data**

Respondents 1 and 3 took a voluntary package, because they were in administration posts. According to them they were given an option, and they opted for a severance package. The respondents also implied that they had received no counselling or training in financial management, hence the money did not last long.

Respondents 4, 6, 7, 9 and 15 of explained that the loss of income and livelihood, coupled with severance payment, amounted to shock. They received more money than they have ever had at one time in their lives, yet their long-term financial outlook is very bleak. They were not counselled on how to manage their finances.

➤ **Discussion of data**

The respondents stated that they did not receive their payment on the last day of work. The payments were delayed and they received them later. The money was firstly paid as a lump sum, and later in stages over a period of time. The respondents were also not informed about the procedure in order for them to understand what was happening.

The study also found out from respondents 1 and 3 that the company did not take a range of steps that goes beyond retrenchment payments and compliance with basic legal requirements to demonstrate social corporate responsibility in relation to retrenchment.

The retrenched workers did not find new sustainable routes to livelihood in order to cushion the effects of retrenchment on both the individual and his/her family. Evidence suggests that retrenched workers would be more likely to use counselling and retraining facilities if they were available before they were retrenched.

The above-mentioned indicates that employees experience problems differently; financial problems are dominating, followed by educational and psychological problems. There are smaller numbers of other problems such as marital and other related problems. This can be attributed to the fact that the employees

were mostly over 50 years of age and some of their children had already completed school by the time of retrenchment.

### **3.7 RESPONDENTS' UNDERSTANDING OF THE PRIVATISATION PROCESS**

#### **➤ Data**

Respondents 1 and 3 understood what was happening. The level of education played an important role in their understanding.

Respondent 3 was informed and he even opted for a severance package. His manager explained the procedure to him; they even made calculations as to how much he will receive when being laid off. The meeting happened three months in advance. Respondent 1 also pointed out that the marketing of the programme was not well managed; there was no clear communication with the employees.

Respondents 5, 6 and 14 agreed that they were informed, and had also heard about retrenchment from colleagues, but there was no transparency and information did not reach everybody, especially the lower level of workers. Respondents 7, 9 and 10 explained that they were never called in by either labour or the management. Respondents 8, 12 and 15 attended a labour meeting, but the process was not clearly outlined; labour explained that management will do it.

Respondents 4 and 11 pointed out that the management did not call a general staff meeting to inform all the potential retrenched personnel about the process, only the managers had full knowledge of the proceedings.

Respondents 7, 8, 9, 11, 13 and 15 believe they were unfairly treated, especially when taking their years of service into account. They were of the opinion that their level of education contributed to their treatment.

➤ **Discussion of data**

From the survey findings, it was established that respondents were informed about the procedures and processes of privatisation to a certain level, but not all of them understood correctly. The possibility is that information and communications were distorted due to their educational level and level of understanding. Those who were in administration had some knowledge about privatisation, but were not told of the main objectives and procedures of the privatisation programme.

From the findings, it appears that people were informed to a certain level, but the information was differently interpreted or it was not discussed on their level of understanding.

### **3.7.1 Households**

➤ **Data**

Respondents 4 and 6 mentioned that they cannot support their families unless they receive some support from relatives.

➤ **Discussion of data**

Privatisation affects households, employees and the economy as a whole. Households are affected in the form of higher prices. In this line of argument, 15 households interviewed did not appreciate retrenchment, because it has brought hardships and poverty. During the interviews, the researcher came across several discontented voices whose livelihoods had been extremely impaired by retrenchments caused by privatisation.

The study also indicates that privatisation has affected the people's welfare, especially households. Privatisation is said to have significantly increased discontent in the families because of the stress experienced by family members.

The researcher is of opinion that the extended family and social system is minimized, since most of the respondents stay away from their extended families. Households were affected by retrenchments; they complained about the terminal packages which were paid in small instalments. According to them, the packages were not beneficial. .

**Quote 2**

**"Certainly, this retrenchment has negatively affected me. I cannot send my children to a better school, all the money went to the payment of bond."**

Those retrenched were not adequately paid and yet they were bread winners of their families. They were never empowered with new skills to enable them to survive without work.

### **3.8 CONCLUSION**

It can be concluded that the findings correlate with the assumptions of the researcher that privatisation affects the lives of people. Even though the process was officially done to a certain level, people's understanding was different, and this can be attributed to the level of education.

## CHAPTER 4

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 4.1 INTRODUCTION

This chapter focuses on the summary of the aspects of the findings, conclusions and recommendations of the conducted study, goal and objective.

##### 4.1.1 Summary of the findings

The findings were summarised according to the following:

###### 4.1.1.1 *Opening own business*

###### ➤ **Conclusions**

The researcher is of the opinion that the retrenched employees needed preparation for life after retrenchment, for their sustainable survival

###### ➤ **Recommendations**

It could be to the advantage of the retrenched person if the company could provide financial and business management training or workshops in preparation for their future financial management.

###### 4.1.1.2 *Financial impact*

###### ➤ **Conclusions**

From the study, the researcher came to the conclusion that much of the existing research about privatisation on cost-savings was done through contracting out

government services. The existing research discussions are focussed on the profit gain of private companies, thus promoting privatisation.

➤ **Recommendations**

Additional research is needed to explore the qualitative aspects of employment conditions in the public sector, an area that has been overlooked in the existing literature. The risk associated with workers receiving large lump sums of cash need to be considered and measures put into place where feasible, to promote sustainable outcomes.

There is a need for extended eligibility for financial counselling regarding savings and the use of severance payments to the spouses of retrenched workers, promoting the facilitation of savings and investment. A socio-economic analysis should be carried out, marking the social and economic tradeoffs.

*4.1.1.3 Marital problems*

➤ **Conclusions**

According to the findings, the researcher concludes that three retrenched employees experienced marital problems. This confirms that retrenchment does have an impact on the normal functioning of families.

➤ **Recommendations**

EAP (Employee assistance programme) service should be made available to retrenched employees for at least a period of 12 months after retrenchment, to enable them to cope with family problems.

#### 4.1.1.4 *Psychological impact*

##### ➤ **Conclusions**

The researcher is of the opinion that the employees were also affected psychologically, this is a true reflection according to the interviewed respondents. The remaining number of respondents did not experience these problems; they did not point it out as a major effect.

##### ➤ **Recommendations**

The company should provide counselling services to the employees' pre-retrenchment. This will imply emotional preparations, and all the employees should receive the service regardless of whether they have funds to pay for it or not.

#### 4.1.1.5 *Educational impact*

##### ➤ **Conclusions**

From the evidence of the study, the researcher came to the conclusion that the respondents' educational level was very low; nine respondents only attained primary education.

##### ➤ **Recommendations**

The company can extend eligibility for skills training and entrepreneurship development opportunities to the family members of retrenched workers.

Working with regional and local governments is important, because they become partners in assisting affected workers. They help to provide social programs and subsidies for retraining. While the company must do its part in trying to ease the impact of job losses, it is primarily the responsibility of the government to

coordinate social and economic planning and development at regional and local level.

Partnering with non governmental organisations (NGOs) is also important, because it can be a valuable resource to retrenched workers. These organizations may play an important role in facilitating the transfer of company resources to retrenched workers and their families, as well as communities, by providing training and counselling services. They can even help to design and deliver alternative livelihood and micro-enterprise development.

#### *4.1.1.6 Communication impact*

##### ➤ **Conclusions**

The researcher came to the conclusion that there was lack of transparency in the privatisation process, as indicated by the respondents when they stated that they were not informed of the proceedings. Furthermore, there is a belief that privatisation has not been independent from political interference.

##### ➤ **Recommendations**

Transparency (Vernon, 1998:19) in processes is very important, and shareholders should be engaged from the beginning of the process, as this will decrease the likelihood of resistance to change and will create a better coping mechanism among employees in the long run. With respect to the management process, findings reveal that the privatisation programme was generally poorly managed. The researcher is of the opinion that employers need to make a full and frank disclosure of information that will help avoid rumours and misinformation.

#### 4.1.1.7 *Severance payment impact*

##### ➤ **Conclusions**

The findings indicated that respondents did not receive counselling services or trainings that could have helped them to survive and use their money wisely. The non-sustainability of their severance payment is attributed to the respondents' lack of proper training and information. Therefore, the researcher concludes that this is the true reflection of the situation, because the findings proved that information about counselling and financial management was not provided.

##### ➤ **Recommendations**

A good social assessment process will identify and engage key stakeholders and will identify impacts that might otherwise be overlooked. Having a comprehensive picture of the scope and degree of impacts will allow the company to prioritize and target mitigation and assistance efforts.

The company should avoid and limit dependency by considering post-closure sustainability of services and infrastructure provided at the earliest stages of planning. In instances where retrenchment is predicted in advance, the company should link up and build ongoing capacity with the help of local government, NGOs and communities, to enable them to link with services.

Optimally, a collective bargaining structure should be in place, enabling an employer to negotiate a mutually acceptable package with properly resourced independent trade union employees, for example COSATU.

Mitigation options should aim to adequately balance politically fairness and economic sustainability. Stakeholders should take the following into consideration:

- Retrenchment as a result of public sector restructuring should be linked to sustainable productivity improvements in the enterprise and to a sound macro and economic sectoral policy framework.
- Packages should be examined carefully to make sure that they are not unaffordable or collapsing other social expenditures, and that they do not lead to adverse problems.

In summary, the researcher applied the phenomenological research design which enabled the researcher to enter the respondents' world and life setting. The respondents were interviewed with one formulated question which made it possible for the researcher to create the same frame of mind amongst different respondents, but allowed the opportunity to share experiences unique to each respondent.

The findings confirmed that the profile of respondents who were retrenched ranges from 48 to 60 years of age and it is a male dominated industry. The respondents also experience problems differently, and the majority of them are still married. The other factor is that they are at an age where their children have already left school or are attending tertiary education institutions, therefore education is not affected that much.

The other finding is that the retrenched employees came from other provinces to Gauteng as migrant labourers. The company bought them houses in a common area, but their original families are still residing in their area of origin which is predominantly Limpopo, followed by Mpumalanga.

Their level of education also affected their understanding of privatisation which led to retrenchment, because the findings indicate that the process was explained to some extent, but people did not comprehend it. Labour movements

should also cater for the needs of their members and employers needed to involve their employees more in the privatisation process which led to their retrenchment.

## **4.2 OBJECTIVES OF THE STUDY**

The original objectives of the study were:

- To explore privatisation in the context of a literature study of current policies and critiques concerning privatisation. This was achieved through literature study.
- To investigate the psychosocial impact of on the privatisation on a group of employees who had been retrenched. This was achieved through interviews.
- To formulate guidelines for employers in dealing with privatisation.

The findings are discussed according to the objectives of the study:

### **4.2.1 Objective 1**

The first objective was based on literature study. The literature study was conducted by the researcher with the aim of obtaining a clear understanding of the impact privatisation has on employees.

In the literature, privatisation in the broader sense has been referred to as the procedure of increasing efficiency of the private sector or any policy move to foster private sector development (Sajji,1990: 210). However for employees privatisation is not favourable, because the findings indicated that it only brings hardships and problems that affect the normal functioning of the family.

Proponents of privatisation argue that privatisation leads to more efficient and cost-effective allocation of labour. On the other hand, opponents of privatisation point out the harm done to public sector employees, because of employee reductions. By contrast, little research has been conducted to date to explore the political environment which shapes service-provision decisions. The two respondents, 1 and 3 believe that the process has been slotted with a lot of strikes and comments in the political sphere.

Objective number 1 has been achieved in the sense that the researcher has studied various literature dealing with privatisation, which gave the guidelines and information required by the study.

#### **4.2.2 Objective 2**

The second objective was to conduct an empirical investigation on the effects of privatisation on employees and their families.

The empirical study enabled the researcher to reach the conclusion that the information given to employees about retrenchment somehow did not have the positive effect intended, and that there is a need for open lines of communication that cater to all levels of education.

Objective number 2 was achieved because the researcher was able to determine the impact caused by privatisation, as the study intended to do.

#### **4.2.3 Objective 3**

The third objective was based on recommendations concerning the outcome of the study.

The researcher is of the opinion that the effects of privatisation are most acutely felt by the retrenched workers and their immediate families.

The respondents are victims of the socio-economic impact, because employees are located in the area where the company was the main employer and they have grown to depend on the company not only for their livelihood, but also for their social services and facilities such as health care, housing, transport and education.

Objective number 3 was also achieved because the researcher was able to recommend to the employers the guidelines that can be employed whenever the company plans retrenchment.

### **4.3 CONCLUSION**

In conclusion, the research question of this study has been answered. The findings of the study proved that privatisation does impact on retrenched employees and their families. The timing and sequencing of the privatisation programme was not beneficial to the employee and there was a lack of a market-friendly framework to work alongside privatisation, but there are some positives where privatisation improved the conditions of employment.

### **4.4 EMPLOYERS' GUIDELINES AS PART OF RECOMMENDATIONS**

According to the researcher's view, there is no "best solution" for retrenchment, and each retrenchment plan requires a tailored plan in which consultation between government, employers and labour representation is essential.

The following factors should be considered by employers when planning retrenchment:

Consultation between government and labour representation before retrenchment is very important.

A thorough company labour market analysis to understand the regional demand for labour and skills supplied by the retrenched workers is essential to help evaluate options for the redundant employees.

The layoff process should be based on available policies such as legal regulations, income support, skills development through training and employment services, as well as improved labour market information and counselling.

Aspects such as the age, gender and skills of the labour force, local market information, income levels of employees, the existence of adequate social protection institutions (i.e. unemployment insurance), vocational and technical training centres, and employment services should be considered. These kinds of services will provide retrenched employees with training towards their skills development.

Employers should make the retrenchment process transparent. They could, for example, appoint an official or an independent consultant to run workshops in preparation for retrenchment. A committee can also be appointed to oversee the whole process of retrenchment. Retrenchment rules should be clear and understood by affected employees. Workers' rights should be reflected in the process.

A collective bargaining structure should be in place enabling employers to negotiate a mutually acceptable package with a trade union organization representing the employees. A temporary income support programme could also help employees while waiting for their payments.

The researcher is of the opinion that regular consultations with workers' unions should be held to help the employees understand and update information. This could prevent the misunderstandings and misinformation about retrenchment.

The researcher is of the opinion that the top-down approach to setting rules and establishing an approval process was done without much involvement of the employees.

#### **4.5 RECOMMENDATIONS**

On the basis of the goals and objectives of the study mentioned above, the researcher recommends the following:

- That the employees be informed in advance about any developments and plans concerning privatisation and retrenchment.
- That all employees attend workshops and receive training about financial management to enable them to make informed decisions.
- That all employees be empowered with information about job alternatives or entrepreneurial skills for sustainable development after retrenchment.
- That the labour movements be vigilant about the future of their members, by providing relevant information.
- That labour and management be committed to improving the literacy of employees.
- That employees be given sufficient information on work related issues and life skills to enhance their social functioning.

Further research is also required to investigate the privatisation concept to ascertain measures to deal with its psychosocial impacts on employees and their families.

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