
Tracing Global Links of Privatization: A Case of Developing Countries

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Abstract

World is facing a wave of Privatization in modern form of public administration since late 70's. Along with the pioneers of privatization (first world), developing countries are also under the umbrella of privatization constituents. However, outcomes of privatization in terms of success are still the question mark. Moreover, Institutional theories and transaction cost theory under the umbrella of social constructionism opens the ground for the discussion on repercussions of Privatization. Hence, Structural Adjustment Programs have been taken as the focal point for the enforcement of Privatization in developing countries. It seems quite evident and conclusive from the history, that it is basically the agenda of Capitalist Sponsored Nations to impose privatization (foreign aid) in developing countries to further devastate them.

1. Introduction

1.1 *Background*

New Public Management (NPM) constituents, as expressed by Hood (1991, 1995) in two of the most extensively quoted

works in public sector research literature, classify seven important fundamentals:

1. Converting public sector into corporate type organizations based on type of product or service they deliver.
2. Increased performance based contract mechanism with high level of competition.
3. Give importance to business sector management methods.
4. Higher weight-age to efficient use of available resources.
5. Visible hands-on top management.
6. Establishment of standardized performance measurement mechanisms.
7. Focus on outputs rather than just inputs.

The table no.1 below shows some of the differences in traditional administrative system (or way of doing work) in public sector and the idea that was gaining importance in 1980's under the name of New Public Management.

Table No.1
NPM Reforms compared with Traditional Public Administration

Elements	Traditional Administration	New Public Management
Government organization	Services provided on a uniform basis operating as a single aggregated unit	Break-up of traditional structures into quasi-autonomous units
Control of public organizations	Control from the headquarters through the hierarch of unbroken supervision and checks and balances	Hands-on professional management with clear statement of goals and performance measurement

Control of output measures	Control on inputs and procedures	Stress results and output control rather than procedures
Management practices	Standard established procedures throughout the service	Using private sector management style
Discipline in resource use	Due process and political entitlements'	Check resources demands and 'do more with less'

Source: Araujo, et.al., (2001)pg.918

Public sector had a key role in providing better services to the public but face of governance started to change few decades ago, when bureaucracies were being blamed for inefficiency and non-accountability and at the same time business sectors best practices were being advocated under the umbrella of New Public Management (NPM). It was said that, it is time when public sector should abandon its traditional role and adopt strategies used by private sector in order to inculcate new values that will ensure improved and effective provision of public services. New Public Management is a combination of managerial tools and techniques based on private sector "performance criteria and practices". In today's era, the word modernization and reform in public sector have been made synonymous with implementation of New Public Management practices (Lapsley, 2009).

Privatization is one of the components of NPM. "Privatization is the transfer of enterprise ownership in whole or in part from the state to private hands, also called denationalization" (Savas, 2000).

Privatization is the global phenomenon under which public bodies get transferred to private entities throughout the world. The origin of this concept started from Great Britain in late 70's and it dominated almost all over the world steadily by the start of 21st century.

After the fall of communism, privatization wave started spreading unabatedly. Even the developing countries also adopted the aforementioned policy as fashion (Brotolloti et al., 2004).

Meggingson et al. (2001) explains the fact that the wave of privatization originated in late 70's around the globe. Privatization moved from country to country from one sector to other sector in a short period.

This study tries to explore the origin of privatization and its repercussions in the form of Structural Adjustment Programs (SAP) imposed by first world nations on developing countries under the light of New Public Management.

1.2 Objectives

1. To find out the origin of privatization
2. To find out the repercussions of privatization in developing countries
3. To find out whether privatization is imposed or adapted phenomena

1.3 Significance of the study

The debate regarding merits and demerits of privatization is still under discussion as it is a serious concern regarding privatization of public entities. The question remains whether to enhance the public sector performance or transfer public entities into privatize organizations. This study has deeply analyzed privatization policies imposed on developing countries as it is vital to know the hidden interests of first world countries behind imposition of such policies. Moreover, it opens the ground for developing countries in order to decide whether to go for privatization without any analysis or not.

2. Literature Review

Basics of New Public Management have been linked to the phenomenon that public sector must address the requirements of its beneficiaries i.e. "citizens" who pay for all services in terms of taxation. New public management has been influenced by economic ideology that "have advocated privatization,

contestability in the delivery of public goods and services and, where possible, the provision of these goods and services through the private sector" (Savoie, 2003).

Smith et al. (1997) presented that many economies like Italy, Germany, and Spain also joined the wave of privatization and that too by openly socialist governments.

In fact, this was a start of privatization in whole world when Thatcher government firstly started privatization in 1979 when telecom sector was firstly privatized. Prior to that, it was very obvious that government should have control over telecommunication, utilities and other kinds of non-road transportation. Along with UK, it was also started in U.S.A under Regan government where different nationalized firms were firstly transformed in to privatized firms under condition of profit maximization (Rondinelli and Iacono, 1996).

Following are the examples which will show the extent of privatization in developing countries specifically of Asia and Africa. In Asia, Malaysia privatized about 358 projects in which telecom and energy sector was on top in 1990 and then, in June 1993, Philippine also came in to the race of privatization where it transferred the 78 state- led enterprises to private companies and by the next month, Srilanka also putted its efforts in privatizing the major telecom giants specially in adopting the global policies of privatization and aggregately more than 30% of the state-led enterprises were privatized by the Srilankan government .

Felts and Jos (2000) presented that, it is the high level of capitalist market economy that has applied pressure on the Public Sector and is insisting it to meet the effectiveness and efficiency criteria. They argued that, initially with the emergence of bureaucracy, every industrialist and scholar was of the view that the best form of structure or the most efficient structure is that of bureaucracy. Nowadays the bureaucratic structure in public sector is declared as unresponsive and poor; this itself is a paradox.

Advocates of privatization also question the ethical side of public employees accusing them of being involved in malpractices such as that of corruption, political influences and affiliations and

deliberate lower output (Chapman 1994; Chapman and O'Toole 1995; Frederickson 1999).

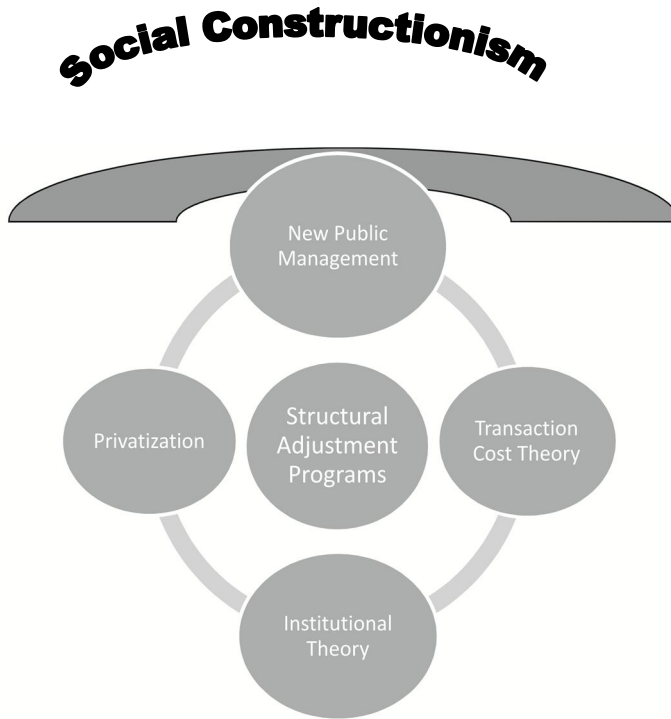
Boubarki & Cosset (1998) in their study on evaluation of privatization of pre and post performance concluded that the idea of using 79 firms in determining the financial performance after privatization was concrete evidence in escalating the performance of most of them.

D'Souza and Megginson (1999) in their study took 78 companies data in order to determine the performance after privatization; they found a positive relation in increasing the performance of most of the companies.

Some of the advocates of privatization justify this practice by arguing that; privatization shall ensure provision of a service with "higher quality" at lower cost. "United States Office of Management and Budget" also presented this idea, but in reality no evaluative or post privatization analysis was conducted in order to confirm this claim (Dannin, 2008).

Fatima and Rehman (2012) in their study concluded that one of the major negative effect of privatization on economy is that it leads to indecision and confusion in employees working in SOE's that have the capacity to be privatized. Therefore in the long run, this confusion and stress can lead to decreased productivity of the workforce and hence increase in inefficiency of the entire organization.

3. Theoretical Framework



Social Construction theory has deep roots in both developed and developing countries as developed countries impose this idea on third world nations. The idea of Social Construction illustrates the importance of self made phenomenon by major stake holders of the world i.e. how first world countries make the policies and how they implement the same in developing countries while labeling it as universally true phenomenon. According to (Hammersley (1992), this “anti-realistic” approach can lead to disastrous results in developing nations due to non-compatibility issues.

NPM as well as privatization is one of the outcomes of Social Constructionism. Pioneers of NPM have not only established their policies in their own respective areas but also implemented the agenda into developing countries without considering the cultural

inbounds. Moving onto organizational theories i.e. Institutional theory deals with the reason of existence and development of organizations (Scott, 2001). According to DiMaggio and Powell (1983), there are three reasons why organizations or institutions either copy or adopt the policies;

- 1 Coercive Isomorphism deals with forcefully implementation of policies by the institutions;
- 2 Mimetic Isomorphism depicts why organizations or institutions copy each other whereas;
- 3 Normative Isomorphism explains that organizations may copy others on ethical grounds as well.

As per Transaction Cost theory, Robbins (1987) illustrates the fact that whenever any inefficiency occurs due to more costs, organizations decide whether to remove inefficiency or outsource the units. The core purpose of the organizations is to minimize the costs in order to perform well.

Structural Adjustment Program (SAP) is one of the core outcome of all the concepts discussed above imposed by developed countries. Main components of SAP are privatization and loans given by international donor agencies.

4. Methodology

4.1 *Research Strategy*

Researcher has elected the Qualitative approach to deal with research question. "Qualitative is a set of non-statistical inquiry techniques and processes used to gather data about something, may it be a social phenomenon or an organizational structure".

4.2 *Research Design*

'Explanatory' research design is opted for this type of study. This design is used in a qualitative study "to explore any

phenomenon and to develop causal explanation of something i.e. cause of the consequence of interest”.

4.3 Data Collection and Analysis

In the light of literature review, secondary data are used for this study.

4.3.1 Secondary Data:

Secondary data involves researches of various researchers related to the researcher’s research question.

5. Discussion

“Nothing is constant but change”. Public Administration (PA) has seen many shifts in policies and governance mechanisms over the decades and this debate has not reached to a final long lasting conclusion. Public administration helps in understanding the role, values and functions of government sector in contrast with private enterprises. Ethics and values of government sector are the key elements in constituting the “body and soul” of public administration (Menzel, 2003).

According to Moore (1976), ethical values of public sector comprise of three principles 1) public interest must be the priority; 2) treating the employees in organizations with respect, honesty and integrity; 3) keeping in view the processes that validate the actions of public officials.

Cohen and Eimicke (1995) have presented eight principles of public administration ethics at organizational and government level:1) to follow the law; 2) to serve public interest; 3) to stay away from making any harm; 4) ensure removal of cut-throat competition; 5) to think first about the national interest rather than any individual’s interests;6) to provide better services to the public on reasonable prices; 7) to ensure the access of fundamental rights and basic necessities to the public; 8) to equally and justifiably provide services to the public.

In 1996, the United Nations proposed an "International Code of Conduct for Public Officials" whose general guideline is follows;

"A public office, as defined by national law, is a position of trust, implying a duty to act in the public interest. Therefore, the ultimate loyalty of public officials shall be to the public interests of their country as expressed through the democratic institutions of government".

Private sector has altogether different objectives and values as compared to public sector. Privatization is not intended to serve the public rather it aims at profit maximization at the expense of public. Private sector does not care about ramifications of increasing tariffs as their ultimate objective is profit maximization hence resulting against the welfare of public.

Secondly, Stewart (1985) stated that public administrators' moral and ethical values are very much different from private sector as public sector ethical values ensure to diminish the gap between have and have-nots as it emphasis upon providing the services equally to each and every one regardless of the purchasing power of public whereas private sector increases the gap between have and have-nots as only those people can get services who can pay and the rest are denied the service.

Thirdly, if there is no or minimal competition in private sector, then monopoly can prove to be disastrous for general mass of the society as such sort of organizations make their own rules and regulations and cripples have-nots.

So, to inculcate private sector values into public sector looks unjustified in either case as the objectives of both are totally opposite as former always looks for profit maximization whereas later calls for providing the services to the public without any sort of prejudice.

Today public administration comes with a different philosophy under the name of NPM since early 80's. One major development or shift in public organization governance has been the transfer of ownership from government hands to private hands. Now-a-days, it is universally accepted that public services

such as telecom, education and health are best delivered if privatized or outsourced instead of being provided by government it-self. This idea has its roots in developed/ first world countries; so, the question is can this concept be replicated in developing countries as well and can it meet its claims? Will this be a valid phenomenon in the third world countries also?

Moreover, what is the major cause of privatizing an organization? Whether it is the government that has a failure state of mind and gives up saying that the situation is out of control and public entity must be privatized? Or is it just about copying a practice that may or may not have success stories associated with it in another country? Or is it an imposed agenda? Also what are the other effects of privatization other than the suggested claims by privatization?

Social Construction theory is the fundamental explanation for unsuccessful imposition of policies in third world countries. As it suggests that policies are constructed by individual bodies such as IMF and WB under the umbrella of capitalist classes throughout and construction of policies by one or few bodies cannot represent the holistic mandate. This means that policies made by first world countries cannot be successfully implemented on developing countries in either way to tackle their issues. Secondly, the intentions of policy makers can be challenged as a number of privatization failure stories exist.

On the other hand, Institutional Theory (IT) further elaborates reasons for the collapse of privatization policy and other possible side effects of privatization. According to this theory, there are three reasons due to which an organization is formed or a policy is adopted i.e. a) Coercive Isomorphism; b) Mimetic Isomorphism; c) Normative Isomorphism (DiMaggio & Powell, 1983).

According to Esman (2001), there have been tremendous global features imposed on the third world counties irrespective of the cultural differences, political dimensions and ideological concepts. Developing countries always have different culture than first world countries and also, its political dimensions and

ideological concepts are totally different than developed nations. This should also be kept in view that 'privatization' is the outcome or one of the ingredients of 'Structural Adjustment Program' (SAP) which developing nations are either rapidly adopting or being forced to apply in one way or other as SAP also includes the deregulation of prices and market, Most Favorite Nation (MFN) statuses i.e. trade liberalization and immunity of overseas investors from tax (Martin, 1993). Capitalists basically have a nexus with the developmental institutions who advocate different recipes under structural adjustment programs and privatization is one such recipe. When privatization is advocated by these institutions, these capitalists come forward and bid for buying the public enterprises resulting in further expansion of giant Multination Corporations.

As far as globalization of privatization is concerned, almost every developing nation so far has adopted the privatization policies in different core sectors such as telecommunication, health, education and energy i.e. generation and distribution. Telecommunication privatization reforms have rapidly been adopted in developing countries like Malaysia, Mexico, Argentina, Peru, Jamaica, Barbados, Turkey and Venezuela (World Bank, 1994a, 1994b).

As it has been already established in the literature review section that privatization is linked with the Thatcher (developed) government in 1979, when major reforms of privatization were firstly presented in sectors like power, telecommunication and water. The major rationales of privatization in UK were to increase the efficiency, reduce government burden and spending, to escalate person's power and to increase the ownership of each and every person (Rentoul, 1987 & Okumura, 1994). In U.S., primary purpose of privatization was to boost the economy, to reduce government expenditure and to expand the capitalist's point of view of profit maximization (Clements, 1994). Japan, as a developed nation, almost sought out the same pre-requisites of privatization and reduced the state role throughout the country (Krauss, 1995).

As far as developing countries are concerned, similar sort of pre-requisites of privatization have been used to forcefully adopt the global policies of privatization under the Structural Adjustment Programs (SAP) prescribed by the International Monetary Fund (IMF) and World Bank (WB). Demands from these developmental giants like IMF and WB are to increase efficiency, effectiveness and accountability and devaluing the currency, decreasing public expenditures, to reduce trade barriers, to reduce the trade and budget deficit and to improve the economy (Jiyad, 1995). According to Kelegama (1995), privatization in developing countries have similar parameters as of west as they want to penetrate accordingly in terms of boosting up the economy, to increase employee security, to improve merit policy, to lower down the corruption and so on but the problem exists as the efficiency, accountability and effectiveness has been seriously challenged throughout even after privatization. On the other hand, one may claim that, efficiency and effectiveness (as claimed by NPM) are not the values of public sector, the first priority of a government is to provide public services to all and not wonder about cost minimization and profit maximizations. Therefore, according to this perspective, a serious conflict exists between the priorities and aims of the two sectors, so how can these two different ideas be merged into one and how can they be expected to reap benefits.

History has recorded numerous shifts in economic governance structure of the state. Firstly, there has been the debate at ideological level that privatization is ideologically rooted in capitalism which promotes the market free approach and in turn aims at controlling other economies by penetrating under the umbrella of MNC's (Clements, 1994). Similarly, Pereira (1993) and Bashevkin (1994) also highlight that privatization is not simply an alternative governance policy, rather it is a tactic used by developed nation's political leaders to please the capitalists who support them politically and according to Martin (1993), internationally renowned leaders i.e. Thatcher of U.K, Ronald Regan of U.S and Brian of Canada were of the same sort.

When things are associated with an ideology, they are bound to expand i.e. ideology has an in-built character of expanding itself. Other than SAP (discussed earlier), it is evident that capitalist practices are promoted in developing countries through different advisors to leaders of these nations via British and U.S centered think tanks under the guidance of international agencies like IMF, WB, USAID, United Nations (UN) and Commonwealth secretariat (Philip & McGowan, 1994). Moreover, capitalists also use many tools like conferences and workshops to convince the developing country's leaders to go for market-centered approach i.e. privatization, in order to penetrate and gain more power in the world. The outcome of this external pressure in Latin American developing nations was so effective that they started privatization at large scale but its claims remained unverified in terms of improving efficiency and effectiveness of former state-led organizations (Pereira, 1993), similar shifts can be strongly observed in Africa and Asia (Haque, 1998).

Secondly, there has been immense pressure on developing countries that one way of solving problems associated with state-led enterprises discussed above can be eradicated through foreign debt and aid. Specially, in Latin America, there was huge internal pressure to accept the foreign aid (Pereira, 1993). The race of privatization in developing countries like Pakistan is the part of ideological war and is part of the plan being executed by foreign agencies and banks under the umbrella of capitalist class (Pitelis & Clarke, 1993). The aim of foreign aid was essentially not to catalyze the development of these countries rather this typical class of people wanted to increase the burden of debt and by that very reason, capitalists got hold of poor countries and dictated them their terms and conditions in which SAP was one of the profound reforms which these developing countries were required to follow. As it was established by the IMF and WB that only way to repay the debt with interest is to remove the inefficiencies of state-owned enterprises and to introduce the privatization programs but this could not happen either (Haque, 1999). It has been concluded that there were some particular conditions

imposed by the donor agencies to introduce the Structural Adjustment Programs (SAP) with privatization and deregulation of market-centered approach to get the foreign aid (Veltmeyer, 1993).

Finally, the privatization policies have also been strengthened due to the political leaders major statements in the favor of these market-centered policies of developed and developing countries. For example, it has been on record that the leader of developed country like Thatcher won the election campaign due to high aim of privatization policies from which any voters got influenced and vote in favor of her (Dobek, 1993) and this political slogan for privatization is also gaining popularity among voters in developing nations (Fuhr, 1994).

The major reasons of privatization in developing nations have been discussed above and in the following paragraphs; reasons and effects of privatization in developing countries have been discussed.

It has been noticed that the privatization gainers are the multinationals only who have their own direct interests hidden behind privatization in developing countries. Many of the multinationals have made immense profits by purchasing the public assets at minimal values with the external pressure, this process is also known as the "garage sale" (Ramanadham, 1995).

This can be witnessed in Pakistan Telecommunication Limited (PTCL) case as well when the whole public entity was sold out to Etisalat at a price less than its overall property value. Reason of privatization in developing countries are same that have been discussed above that privatization will add value to its current status, but one can clearly notice that there are number of examples when their privatization was exercised resulted negatively bringing not only all financial indicators down, but also disapproval from employees and customers after privatization in form of job security, easy access of products, high prices of products and services, lack of better service delivery and high customer complaints.

The impact of privatization in general has not been so good in developing countries. According to Vivian (1994), the world has not witnessed any of the major/significant improvements in terms of boost in economic health as there have been no such improvements in reducing poverty, increasing economic growth, and reducing the dependence from developed nations in the form of foreign debt.

6. Conclusion

Privatization policy links to global context in multiple ways as already discussed in discussion. It may have many bad impacts on developing countries where already unemployment, low literacy rates and health issues exist. The global agenda of developed nations like capitalism developmental influenced such as World Bank (WB) and International Monetary Fund (IMF) should have been deeply analyzed that how one can survive under the imposed conditions by these entities on developing nations at the name of Structural Adjustment Programs like privatization and deregulation of an economy.

This may be conclusive that Capitalists Sponsored Privatization (CSP) itself is not an effective concept, and its misuse by the governments and its atrocious intentions can lead to disastrous results for the countries which already are in severe pain. The outcomes from imposing the 'privatization' have not been so fruitful for developing countries so far.

Lastly, it seems quite evident that privatization is the agenda of first world, who actually impose this on developing countries and dictate them their terms and conditions after enforcing privatization in terms of increasing tariffs or various other means to repay the debts.

7. Recommendations

- Developing countries should consider their cultural aspects and should not believe on what international agents like economists say to them rather they should

try to sort issues themselves by understanding that no World Power will ever really want to see others being 'developed'.

- Third World Countries need to come out of the foreign debt burden as soon as possible to continue the practices what they want for themselves, otherwise powerful bodies like WB and IMF will keep on dictating their terms and conditions under the umbrella of SAP.