THE IMPACT OF PRIVATISATION: OWNERSHIP AND CORPORATE PERFORMANCE IN LESOTHO

A dissertation presented to:

School of Accounting
Faculty of Management Studies
University of KwaZulu-Natal

In fulfilment of the requirements for the degree of

MASTERS OF ACCOUNTANCY
(FINANCIAL ACCOUNTING)
UNIVERSITY OF KWAZULU-NATAL
DURBAN

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SEPTEMBER 2005

DECLARATION

This study was carried out under the supervision of Professor L. J. Stainbank. This research represents original work by the author and has not been submitted in any form to this, or any other University. Where use was made of the work of others, it has been duly acknowledged in the text.

Signed ....

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AKNOWLEDGEMENTS

I wish to thank the following people whose support and encouragement contributed to the successful development of this study. It is with these sincerest thanks and love that I acknowledge them for the rest of my life.

- I would like to firstly acknowledge GOD, for being my guide in the darkest moments, without whom, it would have not been possible for any of my academic progress.

- I specially want to record my thanks and admiration to my supervisor, Prof. L.J. Stainbank for her support, expertise, constructive criticism and her willingness to help, advise, guide and encourage whenever there was a need to.

- My parents (Paul and 'Mathabo Makafane) and my brother for the sacrifices and support they made throughout my studies. I would have not gone this far if it was not because of the inspiration and encouragement I got from my father. He has always believed in me, hence this dissertation is dedicated to him.

- The personnel of all the surveyed organisations, whose co-operation and friendliness are greatly valued. Without them, the study could have never been conducted.

- My special friends, for support and encouragement.

- And thank you to all that have participated in this study.

ABSTRACT

Across the globe, privatisation has become one of the key instruments in the economic reform process. The study investigates the impact of privatisation on selected privatised firms in Lesotho. An evaluation was made of former parastatals that included the Government of Lesotho directly-owned enterprises and Lesotho Bank companies that had since been privatised, after being declared poor performers and that had been regular recipients of Government subsidies for their survival. The country is in the process of rebuilding its economy after experiencing a major setback in its economy in the late 1990's due to a political crisis. Privatisation was seen as one way of fulfilling this enormous task. Hence, the Government of Lesotho decided to offload some of its enterprises to the public whom they believed to be capable of running them in a profit-oriented manner given efficient management and fresh capitalisation. Public participation through share ownership is involved in this process therefore it is important to evaluate these companies' performances. Shareholders are primarily interested in improving their values through maximising profits, and in turn getting high returns.

This study also measures the effects of privatisation in Lesotho in terms of its contributions to the welfare of shareholders and individual corporate performances, with emphasis on the theoretical background to the subject and the opinions of directors, managements and employees of selected companies towards the critical performance changes that occurred in the pre and post privatisation era ranging from the late 1990s to date. After the analysis, the investigation revealed that the selected companies performed indifferently. Some organisations managed to grow financially and in size, while others struggled in the new competitive environments. Whilst the study did not show their individual financial performances, it did highlight the effects of privatisation on these companies in an economic manner. It was also established that Lesotho had significantly different objectives of privatisation to those of other countries especially developed ones.

Key Words: Privatisation, state-owned enterprise, shareholders, ownership, corporate performance, Lesotho, economy, private sector, public sector.

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GLOSSARY – LIST OF ABBREVAITIONS AND ACROYMS

ADB	African Development Bank
AGOA	African Growth and Opportunity Act
AON	*Gaelic* word meaning "Oneness" or "Unity"
ATM	Auto-Machine
BT	British Telecom
CBL	Central Bank of Lesotho
CEO	Chief Executive Officer
CMA	Common Monetary Area
COSATU	Congress of South African Trade Unions
EIB	European International Bank
ESOS	Employee Share Ownership Scheme
EU	European Union
FDI	Foreign Direct Investment
GBE	Government Business Enterprise
GDP	Gross Domestic Product
GNI	Gross National Income
GNP	Gross National Product
GOL	Government of Lesotho
IAS	International Accounting Standards
IDI	International Development Ireland
IFI	International Financial Institution
IFS	Imperial Fleet Services
IFSs	International Financial Services
IFTS	International Freight and Travel Services
IMF	International Monetary Fund
ISA	Individual Savings Account
IT	Information Technology

LAC	Lesotho Airways Corporation
LADB	Lesotho Agricultural Development Bank
LB	Lesotho Bank
LBC	Lesotho Brewing Company
LDCs	Less Developed Countries
LEC	Lesotho Electricity Corporation
LFM	Lesotho Flour Mills
LHWP	Lesotho Highlands Water Project
LTA	Lesotho Telecommunications Authority
LTC	Lesotho Telecommunications Corporation
LUSRP	Lesotho Utilities Sector Reform Project
LUT	Lesotho Unit Trust
M&DA	Management and Discussion Analysis
NCB	National Commercial Bank (Jamaica)
OECD	Organisation for Economic Cooperation and Development
PEs	Privatised Entities/Enterprises
PU	Privatisation Unit
PVPS	Plant Vehicle and Pool Service
R&D	Research and Development
SA	South Africa
SACU	South African Customs Union
SOE	State Owned Enterprise
SPSS	Statistical Package for Social Sciences
TCL	Telecom Lesotho
UK	United Kingdom
US	United States
USAID	United States Agency for International Development
VCL	Vodacom Lesotho
WASA	Water and Sewerage Authority
WB	World Bank

CHAPTER ONE

INTRODUCTION

1.1 Introduction

This chapter provides the overview of the study. The chapter provides firstly a definition of the problem statement, followed by the background to the study, then the research objectives and lastly the importance and structure of the study.

1.2 Problem Statement

Privatisation has become a central feature of the economic policies of a variety of nations in the developed and developing countries. According to Groningen (2001), governments all over the world have begun privatising the state-owned enterprises (SOE). Privatisation is now widespread in industrialised and transitional economies hence the Government of Lesotho (GOL) is no exception in this, as it is engaged in this programme whereby public enterprises are privatised to bolster the country's economy. The objectives are to improve the efficiency of the SOEs, to attract foreign capital and expertise, to introduce competitive pressure and fiscal discipline required for increased production, to encourage improved service levels and job creation and to broaden direct public participation in the economy through the purchase of state-held companies and shares (www.privatisation.gov.ls).

Hence, it is worth mentioning that to fulfil these objectives, the GOL has been highly engaged in this process of selling inefficient and loss-making state-owned enterprises since the late 1990s as a way forward to overcome the economic problems. Presently, some of these companies have grown in size and financially under new managements, while others are struggling to make it in the competitive marketplaces. It is therefore important that under normal circumstances investors benefit from their investments, employees are involved with the daily running activities of such companies, the Government oversees these companies' contributions towards the national economy while the public reap the benefits of privatisation. As a result, this study focuses on the effects of privatisation, the significance of investors' ownership and the corporate performance of these companies in post-privatisation era. Even though privatisation is still underway in Lesotho, prior research on privatisation has focused on its effects on the national economy (Nchake, 2000) and not necessarily towards the internal stakeholders especially both the investors and employees. This research tries to establish if the common known objectives of privatisation worldwide apply in Lesotho, attempts to fill in the gap by focusing on the roles played by investors and employees as shareowners and the corporate performance of privatised entities as compared to previously SOEs. The private sector employs the majority of the workforce in Lesotho which contributes a lot in the economy. Thus, the private sector development provides a good case to understand the process, importance and challenges faced in privatisation in a country of Lesotho's magnitude.

1.3 Historical Background -Lesotho's Economy

Lesotho is a small, mountainous, landlocked country, entirely surrounded by South Africa (and economically integrated with it as well) with no substantial natural resources other than water. The latter often referred to as 'white gold' by the *Basotho*[1] is the country's major natural resource. Lesotho's economy is based on water and electricity sold to South Africa, manufacturing, earnings from the Southern African Customs Union (SACU), agriculture, livestock, and to some extent earnings of labourers employed in South Africa. Lesotho also exports diamonds, wool, and mohair. The majority of households subsist on farming or migrant labour, primarily miners in South Africa for 3 to 9 months. The western lowlands form the main agricultural zone. Almost 50% of the population earns some income through crop cultivation or animal husbandry, with over half the country's income coming from the agricultural sector.

[1] Lesotho citizens (nationals)

Water is Lesotho's only significant natural resource. It is being exploited through the 30-year, multi-billion-dollar Lesotho Highlands Water Project (LHWP)[2], which was initiated in 1986. The LHWP is designed to capture, store, and transfer water from the Orange River system and send it to South Africa's Free State and greater Johannesburg area, which features a large concentration of South African industry, population, and agriculture. During 1995 and 1997, with intense construction activities involving this multi-billion project, Lesotho registered an impressive economic performance – the real GDP growth rate made Lesotho one of the top ten performers in Africa at this time. The positive impact of the water project and a small but rapidly growing manufacturing sector contributed to the surge in economic growth during this period. This project has been financed by the World Bank (WB), African Development Bank (ADB), European Investment Bank (EIB), the Lesotho Government and many other bilateral donors.

More than 85% of the population of 2 million lives in rural areas, engaged mainly in agriculture and informal activities. Agriculture contributes about 14% of GDP but has remained a supplementary source of income since a great majority of households gain their livelihoods from subsistence farming and migrant labour, with a large portion of the adult male workforce employed in South African mines (although the number of such mine workers has declined steadily over the past years). However, these migrant earnings still constitute about 30% of Lesotho's GNP (2002 GNI per capita is $470). The economy of Lesotho is also based on small scale industries that include clothing textile, food processing and construction. The small manufacturing base depends largely on farm products to support the milling, canning, leather and jute industries. Furthermore, Lesotho is a small open economy and outstanding location for export oriented manufacturing industries. Over 50 foreign companies have established manufacturing bases in the Mountain Kingdom and successfully serve a wide variety of world markets (www.worldbank.org). The Asian investors own most factories in Lesotho (www.state.gov). Lesotho has taken advantage of the African Growth and Opportunity Act (AGOA) to become the largest exporter of garments to the United States (U.S.) from sub-Saharan Africa. Exports totaled over $320 million in 2002.

[2] The LHWP is a multi-purpose project to develop in successive phases the water resources of the highland region of Lesotho by a series of dams, tunnels, pumping stations and hydro-electric works.

Lesotho has received economic aid from a variety of sources, including the U.S., WB, Ireland, United Kingdom (UK), European Union (EU), and Germany. This country has nearly 6,000 kilometers of unpaved and modern all-weather roads. There is a short rail line (freight) linking Lesotho with South Africa that is totally owned and operated by South Africa. Lesotho is a member of the SACU in which tariffs have been eliminated on the trade of goods between other member countries, which also include Botswana, Namibia, South Africa, and Swaziland. Lesotho and the last three also form a common currency and exchange control area known as the Common Monetary Area (CMA). The South African rand can be used interchangeably with the *loti*, the Lesotho currency (plural: *maloti*). One hundred lisente equal one *loti*. The *loti* is at par with the rand.

Despite uncertainties and rapid changes in the economic landscape, the country registered impressive economic performance in the years between 1995 and 1997, with a real GDP growth rate that averaged about 10% during that period. Growth subsequently slowed following a political crisis[3] in 1998. The riots, however, destroyed nearly 80% of commercial infrastructure in Maseru and two other major towns in the country, having a disastrous effect on the country's economy. Nonetheless, the country has completed several IMF Structural Adjustment Programs, and inflation declined substantially over the course of the 1990s. Lesotho's trade deficit, however, is quite large, with exports representing only a small fraction of imports. Lesotho's geographic location makes it extremely vulnerable to political and economic developments in South Africa (www.realadventures.com).

In addition, unemployment remains high and is one of the most serious problems facing Lesotho, with poverty still severe. About 35% of the labour force is unemployed or under-employed. People are also Lesotho's other most important natural resource; they are diligent and adaptable, and live within easy reach of where they work, a factor which encourages low absenteeism and punctuality. At 75%, Lesotho's literacy rate is the second highest in Africa and *Basotho* workers are quality conscious and easily trainable.

[3] The September 1998 political crisis was largely a consequence of the electoral system and disputed May 1998 general elections. The armed opposition protesters used violence to destabilize the Government, intimidate workers and business owners, shut down Government and business operations in Maseru, the capital of Lesotho. People looted foreign businesses and foreigners were expelled from the country.

The country's labour cost is competitive by world standards and is considerably lower than in neighbouring South Africa.

1.4 Background to the Study

In order to attain its macroeconomic objectives namely; excellent service delivery, poverty reduction and improved efficiency of the SOEs, the GOL is continuing to place high priority on parastatal privatisation and private sector development, with this strategy forming the primary source of growth and employment creation. Based on free market principles and private ownership of property, the Lesotho economy presents a relatively open economic and business climate. In this regard, the country is fully engaged on the privatisation programme to improve its economy both nationally and internationally by selling off its entities to the public for new management, increased competition, improved profits and new foreign expertise. The slow-down in the world economy during 1998/99 has had far reaching effects on developing countries, with aid and private capital flows to emerging markets reducing. South Africa itself has the most developed and well-diversified economy, with agriculture, mining, secondary industry, commerce and a broad structure of service establishments contributing to the wealth of the nation.

Lesotho's ability to achieve its sustainable human development objectives is closely linked to the evolving economic and political dynamics of this larger neighbour, as well as other countries of the Southern African Development Community (SADC). Economic swings in South Africa are the largest single influence on Lesotho's economy, with inflation following the trends in this country. Proceeds from membership in a common customs union with South Africa form the majority of government revenues expected to be significantly affected by events currently taking place in the world economy (www.lesotho.gov). The GOL has undertaken to transform the country's economy through a privatisation programme of over fifty state-owned commercial enterprises. The programme is being driven by the Lesotho Privatisation Unit (PU), which aims to foster a partnership between the Government, the private sector, labour and the public at large to generate greater economic activity, new employment and widespread prosperity.

During the years 1995 to 2001, twenty five (25) SOEs earmarked for privatisation had actually been privatised. Six companies (SOEs) had been sold by shares, three by business, and two by assets. Five companies had been liquidated, one leased, two merged with existing companies, three contracted out and the last three sold through management contract (Appendix A). According to the PU website (accessed 05th June 2005), in as far as in 2001 six major enterprises were still in the pipeline, while others awaited approval from the cabinet.

1.5 Research Objectives

The objectives of the study are to assess the impact of privatisation on formerly state-owned enterprises in Lesotho, establish the importance of investors' ownership of such entities and evaluate their corporate performances as opposed to previously in the public sector. This study aims to determine whether or not privatisation is really effective, in a country of Lesotho's magnitude.

1.6 Importance of the Study

In most less developed countries (LDC), the inefficient, loss-making state-owned enterprises have become state liabilities of many nations. According to Groningen (2001), a key task facing the economies in transition is to transfer the state-owned enterprises into value maximising private firms. The ultimate goal of the transformation is not merely to engineer a change in ownership, but also to increase the efficiency, flexibility and competitiveness of enterprises, that is, to create organisations that use their assets efficiently and which are capable of competing effectively in an open market economy. Shareholders as providers of capital are interested in how their investments shape in the capital markets more especially if changing of ownership is believed to bring in positive results. This study is important as it seeks to obtain relevant and accurate information about the financial performance of companies post privatisation, their contributions towards the welfare of investors and employees. In particular it:

1. Outlines to them what change of ownership means to them as stakeholders,
2. Provides all the participants in the privatisation programme with information of what to anticipate when implementing it in the country,
3. Providers shareholders with new roles they are expected to perform as new owners, together with other stakeholders who have important roles to play; the government, public and competitors, and
4. Provides the information regarding its effect on the economy and social welfare for the country at large. Because privatisation is a national policy, it definitely affects everyone and thus needs to be monitored.

1.7 The Structure of the Study

This study is structured in three parts and six chapters. Part I deals with introduction, theory and literature (chapters 1, 2 and 3). Part II deals with the methodology and research findings (Chapters 4 and 5). Finally, Part III summarizes and concludes the study (Chapter 6). The contents of the subsequent chapters are as follows:

Chapter Two focuses on the theories and concepts that underlie privatisation in general. The definitions of privatisation, theories and reasons for privatisation, its status in less developed countries and in a global context, and lastly the various prior research studies about privatisation are all discussed in this chapter.

Chapter Three provides the status of privatisation and private sector development in Lesotho. Lesotho's experiences with privatisation in terms of implementations, developments and challenges, methods of privatisation, the private sector participation in the economy and the organisational changes of utilities from public sector to private sector are all dealt with in this chapter.

Chapter Four provides the research design and methodology; outlining the procedure for the administration of the research instrument used, the sample population, data collection approaches and data analysis methods used. The reasons for choosing data collection instruments, the response rate and the limitations to the study are also discussed.

Chapter Five provides an analysis of data and interpretation of findings. This analysis is descriptive and is presented by way of tables and personal interpretations. The chapter is also dedicated to the discussion of research findings

Chapter Six provides conclusions and conclusions drawn from the study. The areas for further research are also identified.

CHAPTER TWO

PRIVATISATION: THEORY AND LITERATURE

"The purpose of the government is to govern – to design strategy and to make decisions. If government has to run business it is distracted from its fundamental task, which is to govern." (Drucker, 1969)

2.1 Introduction

This chapter focuses on the theories and concepts that underlie privatisation in general. The chapter presents firstly the different definitions of privatisation, secondly, theories on privatisation, thirdly, the privatisation rationale taking into consideration the history and background to it, fourthly, the privatisation status in less developed countries and in a global context, and lastly the various prior research studies about privatisation. The general question about whether privatisation is an important determinant of economic and financial performance of entities is addressed, taking into account theories that act as a basis for the study.

First and foremost, the definition of privatisation is thoroughly examined in the next section.

2.2 What Does Privatisation Mean?

Privatisation has been defined and perceived in different ways by various authors. It has been defined as the transfer of public sector activities to the private sector (Hemming and Mansoor, 1988). Farazmand (2001) states that the term "privatisation" is a value laden concept, denoting mainly the banner hoisted by the political Right, but has been popularized on both true and false assumptions around the world. While many view it as a sale of state-owned and public enterprises, it has also been regarded as deregulation, contracting-out public services to private sector providers, marketisation and a host of similar reforms intended to introduce market forces into public sector (Henig, Hamnett, and Feingenbaum 1988; Starr 1989; Suleiman and Waterbury 1990; Farazmand 1996a; 1999b).

Utt (1991: 73) believes that for much of the world, privatisation is synonymous with divestiture – the process whereby a well-defined government-owned and operated commercial enterprise such as a shipyard, telecommunications company, agriculture estate or airline is transferred to private sector owners and operators. Privatisation involves selling state-owned enterprises or government business enterprises (GBEs) and other government activities to the private sector (Edadan, 1997). The purported aim of the process is to ensure a GBE operates on a commercial basis or is subject to fair competition (Treedson, 1996). In many nations, regulators have been established for the privatisation process to protect the interests and activities of three major players namely; consumers, privately owned companies and governments (Hossain and Malbon, 1998: 1).

However, to view this process solely in this context is inaccurate. According to Hartley and Parker (1991), broadly defined privatisation embraces denationalisation or selling-off stated-owned assets, de-regulation (liberalisation), competitive tendering, together with the production of private ownership and market arrangements in socialist states (for example, Eastern Europe, Russia). Public sector assets have been sold to the private sector through direct purchase by other companies. Such sales to the private sector have involved public utilities, manufacturing industry and services. They further put forward the opinion that privatisation policy has been associated with various objectives, some of which are in conflict. In some cases, privatisation policy aims to reduce the size of the public sector borrowing. In other cases, privatisation policy has been associated with a desire for wider share ownership and the creation of a share-owning democracy. Suggestions have also been made that in some countries (for example United Kingdom), the real purpose of the policy is to reduce the monopoly power of public sector trade unions (Ott and Hartley, 1991). In a simplified manner Van de Walle (1989) argues that privatisation is a transfer of ownership and control from the public to the private sector, with particular reference to asset sales.

From all these and other definitions and concepts describing the policy initiative of privatisation, the appropriate definition that is used for this study is according to Jiyad (1995) who states that it can be termed as the following:

- a reduction in ownership base of the state enterprise through a change of ownership, partial or full, from public to private sectors, and liquidation;
- a reduction in the level of activities of the public enterprise by transferring the provisions of goods and services to the private sector; and
- the creation of an enabling environment for the private sector to augment its role and functions in the national economy.

The theories about privatisation are discussed below to act as a basis for this research.

2.3 Theories on Privatisation

Privatisation is very much the flavour of the day. Many enthusiasts of privatisation seem to believe that a shift from public to private ownership will automatically make for improved performance. Yet there is little in economic theory or the empirical evidence on privatisation that lends support to such a simplistic belief (Mohan, 2001). To be specific, in less developed countries (LDC), where law enforcement and corporate governance tend to be weak, private ownership does not necessarily make for better performance. Mohan (2001) argues that neither the theory nor the empirical evidence on privatisation provides unqualified support for the belief that privatisation leads to outcomes superior to those under public ownership. The theoretical literature does not only point out the potential benefits of private ownership, but also underlines the many conditions required for such benefits to materialise (Mohan, 2001). It is also believed that private ownership and privatisation make for superior performance, however this is debatable as the evidence gathered for this study in particular is quite mixed.

Advocates of privatisation consistently presume that ownership changes will induce superior management controls, and hence greater productive[4] and allocative[5] efficiency (Vickers and Yarrow, 1988). Productive efficiency stems from the micro-economic theories of property rights and agency within contractual relationships (Adam, Cavendish and Mistry, 1992) whereas allocative efficiency emphasises the macro-economic benefits of private ownership and markets upon public finances, capital markets and private sector investments (Cook and Kirkpatrick, 1995). According to neo-classical economic theory[6], productive and allocative efficiency gains are unlikely under public ownership. High productive efficiency is deemed impossible in SOEs because political interference leads to poorly motivated, badly paid and inadequately monitored managers.

Literature drawn on property rights and public choice theory has come up with a number of reasons why private ownership might be superior. Property right theory expounds that managers minimise costs if their rewards are directly related to economic performance (Furubotn and Pejovich, 1972). They will only perform if they are monitored and incentivised (Jensen and Meckling, 1976). On the other hand, public sector managers lack incentives to perform due to the fact that they do not fear bankruptcy, thanks to the 'soft budget' constraint, that they expect to get from public funds (Kornai, 1980). In most cases, politicians and bureaucrats, who are vested with the job of monitoring on behalf of the larger public are not as good at monitoring or designing incentive systems as shareholders in a private company (very often, institutional shareholders perform the monitoring role on behalf of small investors). It is also argued that there is a missing link between ownership and management control in SOEs as no one has an incentive to improve economic performance (Hanke, 1986). In addition, it is argued that principal-agent relationships[7] in the private sector are simpler than in the public sector, as shareholders

[4] Improvements in productive efficiency mean that a given level of output can be produced by a firm with fewer inputs at a lower cost.

[5] Improvements in allocative efficiency imply that resources are allocated to activities that earn higher rates of return.

[6] Neo-classical economic theory suggests that efficiency "is a function of market and incentive structures." (Adam, Cavendish and Mistry, 1992)

[7] Agency Relationship is defined as a contract under which one or more persons [the principal(s)] engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.

have information from published accounts to monitor management and sanction them accordingly (Adam *et al.*, 1992). In an efficient capital market, failure to perform to potential leads to low share values making the company vulnerable to hostile take-overs and/or the removal of undisciplined managers.

Public choice theory supports what the property rights approach has to say about relative inefficiency in the public sector by focusing on the behaviour of politicians and bureaucrats. Unlike their counterparts in the private sector, managers in the public sector might lack focus because they are expected to pursue a variety of objectives, not all of which are calculated to maximise profit (Shleifer and Vishny, 1996). Such objectives might include the fact that public sector managers are answerable to different constituents, such as legislators, civil servants and ministers, each with its own objective. For instance, politicians who are answerable to labour, would persuade public sector managers to work towards achieving other objectives such as increasing employment and paying taxes which on the other hand would hinder profit maximization through increased costs. However, according to Martin and Parker (1997), not too much should be made of the lack of incentives, especially pecuniary incentives, in the public sector and the effect of this on the performance of public sector managers. Managers could have broader motives such as improving the economy at large than the usual self-seeking ones. The failure of managers to maximise shareholder wealth and in particular, any tendency on their part to help themselves to over-generous salaries and perquisites is, in theory, disciplined by the capital market (Martin and Parker, 1997). Shareholders will sell under-performing shares, causing prices to fall and possibly creating conditions for a takeover by another firm.

A problem arises when the objectives of principals and agents diverge. The property rights and public choice literature gives insights to this problem. The variety of organisational forms in the public and private sectors raises questions about the value and applicability of broad public versus private performances comparisons. The thrust of property rights and public choice literature is that state-or-publicly-owned enterprises are less efficient than private enterprises. According to the property rights literature, an organisation may be viewed as a 'team' of factor suppliers with contracts established and monitored by management. Management needs incentives to perform the task well by increasing productivity and lowering costs. The central argument is that private sector organisations will perform better than public sector organisations, where rights are diffused and uncertain (Hartley and Parker, 1991). The public choice literature states politicians and state bureaucrats pursue their own self-interests rather than the public interest or the will of the people. Policies are arranged to maximise votes and departmental budgets are expanded so that bureaucrats benefit from better jobs and higher salaries (Hartley and Parker, 1991).

It may be true that privatisation of public-owned enterprise improves performance. The important question is "What are the mechanisms by which change in the nature of the owner (principal) has brought about a change in the nature of the enterprise (agent)?" One answer provided is that, whereas the rewards and punishments of managers in a *bureau*[8] are connected at best with input or process measures, the future of managers in a *firm* is directly linked with output performance. The weight of the explanation of organisational performance, by this argument, is carried by changes in the motivations of managers (Dunsire, 1991). It is common knowledge that the owners of a private firm are interested in profit. Thus, they have only one goal – maximising profits which in turn creates value (wealth) for stakeholders. The government, in particular, is interested in attaining two goals: high consumer welfare and not too high a deficit of the enterprise. Most SOEs operate within the sphere of political interference, which makes it almost difficult for proper accounting and corporate performance. According to Vickers and Yarrow (1998), under private ownership, rewards can be linked to the company's share price via share ownership or options schemes, while poor financial performance might be penalized by the threat of a takeover by another firm.

All these economic theories complement what has been discussed about privatisation so far. There are various reasons why countries choose to privatise their public owned enterprises. The following section discusses these reasons.

[8]bureaucratically-run private firm

2.4 Why Privatisation?

Why has privatisation been so widely and comprehensively adopted throughout the world? Privatisation is seen as a good public policy for both developing and developed countries for entities that are thought to perform better while under the private hands. It is therefore promoted because of the perceived weaknesses of public ownership and poor track record when it comes to enterprise reform. The privatisation debate and subsequent implementation of privatisation policies began in earnest in the UK in the early 1980s. According to Prosser and Moran (1994: 35), privatisation was not inspired by a single, clear ideological rationale, rather 'it was the result of a shifting mix of motives in which the poor performance of public enterprises, the cutting of public borrowing, the destruction of political constituencies hostile to the Conservative Party and increasing share-ownership all played a part.' Although government policy requiring the sale of public utilities was clearly motivated in part by the financial (and political) benefit to government of obtaining income from asset sales, the rhetorical focus was very much on the need to make utilities more efficient and responsive to the market (Hossain and Malbon, 1998: 13).

The authors argued that government ownership and regulation is wasteful and inefficient. The solution was to have utilities regulated by market discipline rather than government regulation. Wildly optimistic claims were made that all utilities would eventually be players within competitive markets – utility monopolies would seemingly disappear for all time. Clutterbuck (1991) indicates that privatisation has become one of the favoured policies of the World Bank and International Monetary Fund (IMF), as they seek to deal with the problem of Third World debt. The WB has espoused privatisation as a way of solving problems in the developing world.

2.4.1 The Arguments for Privatisation

There are several reasons behind privatisation as opposed to keeping entities under public ownership. Different countries have different priorities in ordering their privatisation objectives according to specific socio-economic and political situation. The benefits of privatisation are that privatisation:

a) Improves efficiency at enterprise level

The World Bank (2000) indicates that the principal reason of privatisation is to increase the efficiency of enterprises because operations could be done with minimal political interference, and management and employees could be provided with better incentives and conduct themselves in accordance with the norms of a commercial culture that foster the interests of shareholders and clients by adoption of the most efficient practices. Public enterprises around the world have proved to be highly inefficient, primarily because they pursue strategies, such as excess employment, that satisfy the political objectives of politicians who control them (Hemming and Mansoor, 1987). Privatisation promotes economic efficiency by fostering well functioning markets and competition. It also increases efficiency at the enterprise level, raises funds and reduces borrowing to improve a nation's effective economic management (Gould, 1990: 1).

b) Provides new capital investment and expertise

Privatisation provides new capital investment, new managerial skills, new market and supply linkages in order to generate new jobs. It increases the private sector and enhances the economic growth. Privatisation widens capital markets by bringing in new investors from outside the country and deepens them by introducing mature companies with strong market positions (Wright and Vickers, 1988). Through privatisation, a near bankrupt nation can attract overseas capital such as new investments which also helps in reducing debts.

c) Reduces public debt

According to Clutterbuck (1991), one way of reducing state spending and borrowing is through selling off state assets as form of privatisation. Many are assets in name only as have become state liabilities. Most governments have resorted to privatisation programmes with the aim of addressing some of the problems associated with the SOEs such as the cutting of public borrowing and poor performance. In most cases less developed countries engage in privatisation to generate immediate or future cash income, foreign exchange and/or settle foreign debt (Ott and Hartley, 1991:169).

d) Spreads and democratizes share ownership

Gould (1990) claims privatisation increases share in the enterprise ownership. Parker and Hartley (1991) suggest that privatisation results in a wider share ownership and the creation of a share-owning democracy. It spreads ownership throughout an economy or implements a free market philosophy. Most governments adopted privatisation to encourage employees and management to join in ownership of those companies by selling to them stakes in form of shares. They are often offered equity stakes in companies in the form of stock options and shares as one way of appreciation for their satisfactory and added efforts towards making such companies forces to be reckoned within the competitive industries.

For instance, in the UK, the government has made some attempts to encourage more private individuals to become company shareholders, by means of attractive privatisation issues (such as in the electricity, gas and telecommunications industries) and tax incentives, such as Individuals Savings Accounts (ISAs), to encourage individuals to invest in shares. Supporters in Europe have also claimed that privatisation fosters the growth of the stock exchange (Clutterbuck, 1991: 5).

e) Creates competition in the marketplace

Privatisation may also be viewed as a mechanism for creating, increasing or enhancing competition (Johnson, 1988:14). Competition between service providers (both private and public) encourages more efficient management and helps to ensure that high quality and effective services are provided at low cost. Under conditions of competition, private service providers have to focus on the needs and desires of their customers. Not only does privatisation create competition in the market but it also promotes discipline in the market place.

f) Improves service level

Privately owned companies have greater incentives to produce goods and services in the quantity and variety in which consumers prefer. Company owners see to it that demands for their products are met. Employees give their maximum effort when it comes to doing their duties due to improved or revised incentives. Under conditions of competition, private service providers are forced to lower their prices and/or increase the quality of the services provided in response to market conditions. As long as clients have the right to choose who will supply their service, they will tend to choose those suppliers that provide the right quality of service at a cost they can afford.

g) Increases employment opportunities

Opening the market to private service providers widens the possibilities for new service businesses and creates increased employment opportunities. This assists in stimulating national economic growth. Privatised entities are able to bring in skilled manpower and management expertise either locally or from abroad. In most cases, SOEs cannot match wages and salaries that are offered in privatised entities hence employees give their best in the latter.

h) Redefines the role of the government

Privatisation reduces government and bureaucratic interference in the day-to-day business of an enterprise (Gould, 1990). It ensures that businesses are run on commercial rather than political grounds. Privatisation seeks to reduce the government's dominant role in the economy by transferring SOEs to the private hands of the public as they are believed to be suitable persons to run them. In other words, privatisation redefines the role of the state in order to allow it to concentrate on the essential task of governing.

Although privatisation may be pursued for one or all of the above reasons, a common theme is enterprise performance and efficiency. The arguments against privatisation are discussed below.

2.4.2 The Arguments against Privatisation

Undoubtedly, privatisation as part of transformation has been criticised in many respects. Privatisation may not necessarily be the ultimate solution for problems mostly encountered by public enterprises. In this regard, privatisation has its own setbacks which count against it. These are discussed below:

a) The whole transformation change

Privatisation of services is associated with a degree of uncertainty on the part of the government. There is a tendency to believe that privatisation of public services is highly risky for governments (www.deliveri.org). Privatisation is viewed as happening too soon or too fast for some, or too slowly for others. Mashologu[9] (1999) empathises that people complain about its procedures; they claim privatisation to be too complicated or not sufficiently transparent. Some people are afraid of change itself simply because it means movement from familiar ways of doing things to the unknown. Public employees may also feel reluctant to explore the possibilities relating to privatisation of services for fear that it will eliminate jobs in the public sector.

b) Fear of job losses, retrenchments or demotions

Probably the most feared impact of privatisation is that of employee lay-offs or retrenchments. Mashologu (1999) explains that "... but at first it attracted little attention because it was too new, and because it seemed far away. Today privatisation has become familiar. It is actually happening." Workers worry seriously about the possibility of losing their jobs. In most cases, they are retrenched. Although they get sufficient compensations, that does not compensate for the fact that they lost their jobs. Opponents of privatisation argue that it has a negative impact on household income of retrenched employees thereby making them poor. Again it leads to high rates of unemployment which in turn affects the economy negatively. Normally victims of such retrenchments and lay-offs are lower level employees who are already

[9] Director for Lesotho Privatisation Unit

struggling to make ends meet in their lives. For all these reasons, they argue that privatisation is and should be seen as anti-developmental and anti-labour (Malieane, 2003).

c) *Recruitment of new staff*

Employees worry because enterprises are often sold to foreigners whom in most cases recruit their own personnel particularly in less developed countries. Resultantly, jobs are lost by local workers increasing both the unemployment rate and poverty level. Once the privatisation decision is announced and preparations are made to privatise a firm, managers and workers would have no incentive to perform, they might have perverse incentives to under-perform if they were planning to take control (Mohan, 2001).

d) *Increased selling prices*

Privatisation has effects on consumer prices as prices inflate unlike in public enterprises where they are normally fixed and/or subsidized by the government. Private companies charge prices that are economically rational, competitive and profit-oriented. The effect of this is that subsidies that were previously borne by government become additional charges in prices that consumers pay for products and services.

e) *Prevents the government from providing essential services*

A privatised company is less willing to provide uneconomic services. Makhakhe (2003) raises the point that even if some parastatals could be privatised, some key services such as water, electricity, telecommunication and financial institutions should remain in government's hands as they provide essential services, and it is the duty of the government to ensure that everybody gets access to these services. She adds that government intervention in the economy is crucial to ensuring that services remain affordable and accessible to all.

f) Monopoly power

Johnson (1988) argues that a privately owned company will have a greater incentive to exploit monopoly power commercially. To the extent that this monopoly is not limited, consumer benefits from privatisation will be less than they might be because companies will be more interested in maximising profits than meeting consumer demands. Again privatisation may simply create private sector monopolies with high barriers to new firms entering the industry. For instance, the existing firm may have significant economies of scale that new firms cannot compete as in the case of natural monopolies and the start up costs for new firms may be prohibitive.

g) Profit maximisation

Privatised firms make decisions based on commercial profit maximising grounds. They are highly interested in maximising their sales and minimising costs thereby resulting in high profits. Nationalised firms make decisions in the public interest. Privatisation favours less employment while trying to promote social well-being and efficiency in the enterprise level.

2.4.3 Privatisation in Practice

According to Hemming and Mansoor (1987), there is a growing body of literature that shows that when the public and private sectors are compared in terms of productive efficiency (that is, lower production costs), the private sector outperforms the public sector. These analyses and comparisons generally demonstrate that (1) the private sector is more efficient than the public sector in producing goods and delivering services; (2) the competitive private market generally provides routine services much cheaper than a government department; and (3) greater private sector participation results in an increase in the quantity and diversity of services offered. One official explanation which has been offered in the UK is that:

> It is no mystery why privatisation has succeeded. The overwhelming majority of employees have become shareholders in the newly-privatised companies. They want their companies to succeed. Their companies have been released from the detailed controls of Whitehall and given more

> freedom to manage their own affairs. And they have been exposed to the full commercial disciplines of the customers. Even former monopolies now face increased competition. (Conservative Manifesto, 1987)

This quotation implies that an economic model in which there are improvements in economic performance depends not only on ownership, but also on competition and managerial freedom.

Empirical evidence shows that most public enterprises would have gone bankrupt or insolvent had the government not intervened through financing such deficits or settling those debts (Malieane, 2003). But again, the author claims that some governments provide SOEs with inadequate human, capital and financial resources on account that once such SOEs achieve viability, financial independence and technological superiority, they will automatically be able to resist excessive government interference and control. Competition has increased in most industries as a result of privatisation. Some enterprises that used to enjoy monopoly have to compete with new organisations for market share. Companies are now faced with a task of having to provide excellent services as one way of striving to be the best in the market place. This only happens when workers contribute significantly by working hard and get incentives for their efforts towards ensuring that the company makes its mark in the competitive industry. In other words, privatised companies pay employees wages and salaries that are considered far better than they used to get while still working for parastatals.

The following two sections address the status of privatisation in less developed countries and the status of privatisation globally in terms of its achievements and effects to date. Privatisation was first launched in the developed economies with great success hence LDCs or poor states followed this trend later.

2.5 Privatisation in Less Developed Countries

Privatisation policies in less developed countries are a response to public sector control problems (Clutterbuck, 1991). The appearance of privatisation on the development agenda in LDCs is largely due to external pressures from international aid donors and banking agencies, such as the World Bank and the International Monetary Fund, as they seek to deal with the problem of Third World debt. The World Bank (1992) in its review of privatisation programmes noted the following. "Most privatisation success stories come from high or middle-income countries. It is harder to privatise in low-income settings, where the process is more difficult to launch." The study was quick to add, "But even in low-income countries the results of some privatisation experiments have been highly positive." It is difficult for less developed countries to resist this privatisation policy because to do otherwise might debar them from crucial concessionary finance from the WB, IMF and northern aid donors (Craig, 2000). The World Bank points to growing debts caused by overspending or misusing of public funds by SOEs which could otherwise be used on health and education. One way of reducing state spending and borrowing in this process is to sell off state assets which have become valueless because they are not generating any economic benefits for the Government.

The bank goes on to claim that there is more transparent accounting and improved economic performance in privatised companies, along with presumptions that privatisation directly facilitates broader development goals such as increased investment, GDP, productivity and employment. Equally so, the IMF sees privatisation as one way of reducing public sector debt. Government involvement extends from regulating private sector activities to the outright production and distribution of goods and services through SOEs. Government intervention and the prevalence of SOEs have had pernicious effects in several LDCs (Ott and Hartely, 1991: 164). They further suggest that SOEs have inhibited economic growth and competition; stifled private entrepreneurship and initiative; diverted credit from the most productive activities to those less deserving; and decreased rather than increased the standard of living of the population. The largest growth of reliance upon state-owned enterprises and government control of the economy occurred in many LDCs during the 1960s and 1970s, when many newly independent nations began to introduce controls into their economies to promote and protect local industry, and limit the activities of foreign firms that might compete with indigenous industries thought important to economic growth (Ott and Hartley, 1991).

According to Ramanadham (1988: 238), the most common cause of economic inefficiency in the public enterprise is political interference. In many LDCs the public enterprise is in an important instrument for political patronage. Senior staff members are frequently political appointments with little industrial management experience. Employment, purchasing and pricing decisions are subject to political intervention and the boundaries between the government and enterprise control are ill-defined and continually shifting. Weak structures of accountability in public sector organisations have exacerbated the operations of public enterprises and frequently have meant that state enterprise managers have not been held responsible for the performance of their operations (Malieane, 2003). Unlike in private enterprises, managers in public enterprises are not accountable for any actions that might affect them negatively as they are only there to ensure that such enterprises exist. No matter how qualified and experienced public enterprises' managers are, they may be prevented from implementing policies and processes that could improve performance as political decisions outweigh business decisions in cases where the latter determine what the enterprise does. Most SOEs operate within the sphere of political interference, which makes it almost difficult for proper accounting and corporate performance.

He further indicates that the appointment of such people really set the public enterprises on the path to disaster. In perspective, the public enterprise sector is proved inactive and inefficient in as far as both the economic and social developments are concerned. This is more so because most public enterprises deficits are financed either by borrowings from the government or grants from international donors. Ott and Hartley (1991:172), state that privatisation provides LDCs with a process for spreading business ownership more widely among the public, which increases the probability that business ownership will not be confined to a small number of wealthy families or to big industrial-financial conglomerates. The 'sales of shares' in privatisation allows a country's citizenry in general and the employees in state-owned industrial and agricultural enterprises in particular to gain a stake in the success of their enterprises, which in turn leads to increased productivity. An example derived from Jamaica's privatisation programme illustrates this point:

Privatisation of Jamaica's National Commercial Bank (NCB) mobilized broad-based popular support in that country through the sale of over 30 million shares of NCB stock. Apart from the nearly 2 000 NCB employees who subscribed, 15 000 applications were for under 300 shares, and 7 000 applications were for 300 to 1 000 shares. Privatisation allowed for a broadening of the economic base and enabled a larger number of citizens to have an opportunity to participate in and enjoy the benefits derived from the growth of the enterprise (Ott and Hartley, 1991).

If the principal objective of privatisation is to increase economic performance, the policy priority should be to increase competition, rather than to transfer ownership. However, market competition is often constrained in LDCs. For example, where the public enterprise is a natural monopoly, deregulation may simply permit the monopoly enterprise to engage in anti-competition, predatory activities designed to eliminate competing firms. Market liberalisation often forms one part of the structural adjustment programmes adopted by LDCs on the recommendation of the international development agencies. However, the experience with these programmes in Latin America and elsewhere has highlighted the difficulties of introducing a more competitive market environment (Corbo and de Melo, 1987). Ramanadham (1988:241) mentions that the problems of implementing privatisation in LDCs are increased by the absence of a well developed capital market. This means that divestiture will have to be made by direct placement with local or foreign interests large enough to handle the transaction. The government may be unwilling, however, to have its assets transferred to certain groups of potential buyers if it results in a further concentration of wealth. In some countries, it will be politically unacceptable to sell to wealthy racial or minority groups. Similar objections may be raised to increased ownership by foreign interests.

Contrary to the above, in a survey done by Millward (1988), there is no evidence of a statistically satisfactory kind to suggest that public enterprises in LDCs have a lower level of technical efficiency than private firms operating at the same level of operation. This shows that privatisation does not necessarily guarantee better performance as opposed to the public sector. In its assessment of privatisation in sub-Saharan Africa, the World Bank (1994) concluded that "such limited privatisation has had little impact on efficiency and economic growth." One of the most common fears in LDCs particularly amongst opponents of privatisation is that privatisation will result in the transfer of a public monopoly to a private monopoly, and the latter may lead to an even worse outcome. After all, privatisation offers no guarantees of greater efficiency, more competition, lower cost or better quality consumer products. In other words, exchanging a public monopoly for a private monopoly through privatisation may or may not increase society's welfare (Ott and Hartley, 1991: 169).

The authors claim that an economic issue with political consequences is the LDC government's fear of losing control of the pace and direction of development especially in the industrial sector, and thereby exposing itself to the charge of sacrificing social welfare to the private profit motive (Ott and Hartley 1991). There is also a tendency by the public to blame the government for consumer price rises that normally occur when a former SOE is privatised.

It can therefore be concluded that privatisation in less developed countries may play a major role towards improving the economy of such countries. However, not all countries find it as an acceptable alternative when embarking on economic reform. Privatisation policy is not adopted only in LDCs but it is implemented worldwide. Hence the following section discusses the status of privatisation globally.

2.6 The Status of Privatisation Globally

In the developing world, the poor, newly-independent countries of Africa and Asia saw the state ownership of commercial enterprises as a key ingredient of a strategy of economic growth (Utt, 1991: 73). He further explains that many countries adopted a policy of nationalizing the few foreign-held firms left over from the colonial era and created many new ones as part of an overall development strategy to concentrate resources in the industrial sector. These state-directed development schemes were failures and many of these countries now see privatisation as a way of enhancing their development prospects by shifting toward greater reliance on free enterprise and competitive markets. Thus, for such countries, a privatisation process that relies chiefly on divestitures is the foundation of any transaction from state control to market direction.

Interest in privatisation is spreading rapidly among almost all countries. The next section discusses the status of privatisation globally with particular emphasis on the more developed nations.

2.6.1 Developed Countries

According to Sozzani (2001), privatisation has been employed by government agencies in virtually all industrial sectors. The developed countries directed their strategies towards industries such as airlines, banking, post and telecommunications and utilities (electricity, water and gas). Most countries including Australia and the United States follow the United Kingdom Model of Privatisation that was developed by the Thatcher regime in Great Britain:

> A privatisation exercise demands the coordinated application of a wide range of skills and expertise, from broad conceptual sweep to logistical minutiae. From legalities to logistics, from wide vision of large scale-marketing activities to fine detail documentation, the UK has spent two decades refining privatisation process. The level of expertise developed in privatising industries in sectors ranging from airports to water supply, from electric utilities to rail activities, from telecommunications providers to research and development laboratories has lent itself to wider application (Gibbon, 1996).

This model was perfected by the UK over the last 20-25 years. Both the United States and Australia have adopted this model to their respective systems of government, economic policy and legislative directives. Sozzani (2001) further states that UK enjoyed a great deal of success in privatising a wide spectrum of government owned enterprises, including the British Telecom, British Rail, Railtrack, British Petroleum, British Airways and the British National Oil Corporation to name a few. The United States has privatised many agencies in last two decades; for instance, the 1987 privatisation of Conrail which was sold in a public stock offering worth $ 1.65 billion. Australia has had its fair share of success in privatisation at the Federal Level. Both partial and full privatisation occurred in Australia, examples include Commonwealth Bank and Telstra. The latter was the largest initial public offering in the world (Sozzani, 2001).

2.6.2 The Arab Countries

The Arab countries, like many others, have also been privatising for many years (Jiyad, 1995). Rich, middle income and poor Arab countries, radical, moderate and conservative regimes found themselves embarking to different extents on privatisation. Jiyad indicates that some of the Arab countries (Egypt, Tunisia, Morocco, Sudan, Jordan and Algeria) adopted economic reform policies in which stabilisation, structural adjustment and privatisation programmes were integral components of the economic packages negotiated and agreed upon with the International Financial Institutions (IFIs), namely the World Bank and the IMF. Others had "voluntarily" implemented such reforms as a way out of an increasing and acute economic crisis (Iraq and Syria) or for budgetary reasons coupled with the desire to join the rest of the rich Arab countries. Although all the Arab countries have embraced privatisation only six of them (Algeria, Egypt, Iraq, Morocco, Sudan and Tunisia) have known nation-wide programmes and showed political and official commitment to privatisation. Interestingly, privatisation did not seem to have led to workers' lay off in Egypt and Morocco thanks to the arrangements agreed upon with the new owners of the privatised companies. Furthermore, in Morocco, some of the privatised firms even increased their employment although at modest levels.

2.6.3 The sub-Saharan African Countries

Despite the increase in the number of privatisation transactions each year, many sub-Saharan countries face difficulties in privatising SOEs and the number of privatised enterprises is far less than the target set by the countries. Most state-owned enterprises are over-staffed and are highly indebted (Bennell, 1997). There are many obstacles to privatisation in sub-Saharan African countries. For instance, according to the Economist (1999), in South Africa, the Government reckoned 27 000 jobs needed to be reduced at Transnet, a transport company and 10 000 jobs at Telkom, a telecommunication company. These are quite big numbers for job losses to happen at once. According to Young (1995), the SOEs were frequently undercapitalised and the difficulties encountered in financing operations from their own resources fostered a propensity to borrow. Bennell (1997) thinks the management and workers represent a powerful political constituency in most sub-Saharan countries. Trade union strikes deter investors. The Government tries to give preferred access to unions at the time of privatisation such as the purchase of shares at reduced prices to facilitate divestiture (The Economist, 1999).

In his thesis Groningen (2001), quotes both Collier and Gunnig (1999) as saying "Investors rate Africa as highly risky. Investment in Africa is more difficult to reverse than in the case elsewhere. One reason for this is that equipment once purchased is less readily saleable, since markets in second hand capital are weak. Another reason is that the market in firms as going concern is very limited. This is due to a combination of lack of finance and severe problem of asymmetric information in the absence of reliable audits." Groningen adds that a lack of transparency in SOE transactions has been a major concern among prospective investors in sub-Saharan African countries. However in sub-Saharan Africa, few countries possess the characteristics that make for successful privatisation; developed capital markets with considerable depth and absorptive capacity through which privatisation could be mediated and effectively supervised, lack of legal and judicial framework, the generally per capita income and conducive regulatory structures (Groningen, 2001).

2.6.4 South Africa

In South Africa, an article from AFROL News which read *Unions protest SA privatisation programme* dated 15th May 2002, confirmed that the Congress of South African Trade Unions (COSATU), was against the privatisation idea, claiming the government was 'selling out' essential services. On May 17th, 2002, Jeff Radebe[10] announced that he intended to proceed with his programme of privatisation of Telkom, Eskom, the ports, Denel and other state assets. "Where we choose to restructure state owned enterprises, we promote models to enhance their positive contribution to the economy and their global competitiveness," the minister said.

On the other hand, COSATU was deeply concerned and disappointed by this statement. The union's statement read "COSATU remains opposed to the government selling off state companies which provide essential services to the community. We will continue to demand that the government look at alternative forms of restructuring which maintain these organisations in the public sector and make them deliver affordable and accessible services, especially to the poor" (www.afrol.com). This shows that a workers' union in certain countries can be influential on workers and ordinary citizens who might have second thoughts about privatisation. However, the South African government promised that there would not be any job losses as was originally feared by concerned parties and thus the process is going ahead.

Privatisation seems to be an on-going process as even nowadays companies are still being transferred to the private hands of the public which proves that somehow the results are there for one to see. The next section discusses some prior research studies that are relevant to this current study.

2.7 Research Studies on Privatisation

Is privatisation a good public policy? This is a complicated question with no simple answer. The proponents answer yes, while opponents reply no. The complication in answering this question arises with the meaning of privatisation. Indeed, different perspectives reflect different ideological underpinnings. The table below shows prior important research studies that showed different results about the impact of privatisation in various countries. The more important studies are discussed in the following section.

[10] the South African Public Enterprises' Minister (2002)

Table 2-1: <u>The Research Studies on the Effects of Privatisation in Different Countries</u>

Studies supporting Privatisation	Studies against Privatisation	Studies with Mixed Results	Studies with Uncertain Results
Kocenda and Svejnar (2002)	Weiss (1995)	Boubakri, Narjess and Cosset (1997)	Foreman-Peck and Manning (1998)
Martin and Parker (1992)	Millward (1988)	Martin and Parker (1997)	Carlin, Fries, Shaffer and Seabright (2001)
LaPorta and Lopez-De-Silanes (1998)	Yunker (1975)	Caves, Christensen and Diewert (1982)	Finisinger (1984)
Megginson, Nash and Van Randenborgh (1994)	Meyer (1975)		
Adams, Cavendish, and Percy (1992)	Fare, Grosskopf and Logan (1985)		
Bishop and Kay (1989)			
Galal, Jones, Tandon and Vogelsang (1994)			

Source: *Economic and Political Weekly Special Article* (29th December, 2001)

2.7.1 Studies supporting Privatisation

a. In their research entitled *Ownership and Corporate Performance after Large Scale Privatisation,* Kocenda and Svejnar (2002) concluded that privatisation was in general associated with better firm performance. Kocenda and Svejnar's study analysed the effect of detailed ownership patterns on four years of post-privatisation in large-scale privatisation in the Czech Republic. They found that foreign investors with majority ownership of firms carry out the most substantial restructuring in that they increase sales while keeping production costs down to a similar extent as other firms. Privatised firms in which the state retained influence as a holder of a golden share increased both sales and labour costs.

b. Following privatisation in the United Kingdom, the majority of companies reviewed by Martin and Parker (1992) showed a marked improvement, especially in labour productivity growth. Their analysis found that labour productivity gains increased more rapidly than total factor productivity. This would appear to reflect management efforts to tackle the excessive over-manning which was such a common characteristic among nationalized companies. The authors concluded that productivity performance through out the privatisation period had been especially strong in the British Aerospace, Associated British Ports and British Telecom (BT). Significantly, the improvement in the BT's performance has been greatest since 1989, when it began to face far greater competition from new entrants into the marketplace (Martin and Parker, 1992).

c. The study of LaPorta and Lopez-De-Silanes (1998) covered 218 firms under 26 different sectors in Mexico, privatised between 1983 and 1991. The authors examined seven broad indicators of performance: profitability; operating efficiency; employment and wages; capital investment; total output; prices and taxes. For each firm, they measured the change in any given indicator of performance by comparing its value in 1993 (which falls in the post-privatisation period) to its average value over the four years preceding the privatisation of the firm. The mean (median) firm in their sample had been privatised 4.25 (4) years prior to 1993. They found that profitability, measured by the ratio of operating income to sales, increased by 24%. Operating efficiency improved significantly. The employment levels nearly halved which points to transfers from workers to shareholders. Investment rose moderately. Real sales recorded a spectacular rise (the authors suggest some of this might reflect redistribution away from customers who obtained the firms' output at low prices on account of incompetence or corruption; for example, theft was rampant at utilities). The tax to sales ratio also rose significantly.

The authors decomposed the gains into three components: increase in prices, reduction in workers, and productivity gains. They also tested for the effects of deregulation, which was taking place along with privatisation, using dummy variables for various measures of deregulation. They found that deregulation was associated with much better post-privatisation performance.

The following section describes another study in Mexico with a different conclusion that showed the results that were against privatisation.

2.7.2 A Study against Privatisation

The findings of Weiss (1995) were diametrically opposite to the above. He examined the 500 largest enterprises in Mexico, a LDC over the period 1985-90, and compared measures such as sales at constant prices, sales per worker at constant prices and sales per unit of total assets at constant prices. His conclusion was "In terms of the influence of ownership, which is the main focus of this analysis, there is no support for the view that state ownership *per se* implies poor performance.... What is clear... is that the results give no support for privatisation of the remaining enterprises on efficiency grounds." This shows that privatisation does not necessarily guarantee better performance, anything is possible. It is a matter of luck and hard work that could yield excellent results.

Nevertheless, other research studies showed mixed results at best that could also be in serious consideration as they are very important to this study.

2.7.3 Studies with Mixed Results

a. Boubakri and Cosset (1998) followed the approach of Megginson, Nash and Van Randenborgh (1994), as they examined the impact of privatisation using data of 79 companies from 21 LDCs[11]. They found significant improvements in return on sales, real sales, and capital expenditure/sales, but not in employment. But such an aggregation of economies conceals enormous differences. Several LDCs have fared badly with their privatisation programmes.

b. In his survey, Nellis[12] (2000) lends support to the evidence that "the further east one travels, the less likely is one to see rapid or dramatic returns to privatisation". He cites research on countries such as the Republic of Georgia, Mongolia, Kazakhstan, Ukraine, Moldova, the Czech Republic and indeed Russia which

[11] Bangladesh, India, Pakistan, Chile, Jamaica, Nigeria, Philippines, Thailand, Tunisia, Turkey, Argentina, Brazil, Greece, Malaysia, Mexico, Portugal, Singapore, South Korea, Taiwan, Trinidad and Tobago, and Venezuela.

[12] Nellis (2000) was working at the World Bank, an agency that had prodded economies towards privatisation.

casts doubt on the efficacy of privatisation. The author also draws attention to the fact that even though China has adopted a cautious approach to privatisation, it has been among the fastest-growing economies in the world in recent years. (www.epw.org).

c. In their study entitled *The Impact of Privatisation: Ownership and Corporate Performance in the UK,* Martin and Parker (1997) reviewed a number of international studies[13] that compared state and private sector enterprises and found that while the evidence is mixed, there are several studies that point to superior efficiency in the public sector. They conclude, "In sum, the international studies do not provide unequivocal support for privatisation programmes," (http://www.epw.org.in/showArticles). The authors also looked at comparisons made in the UK between public and private sector companies. Here again, the diversity of results is striking. It must be added, though, that many of the international studies cited seem not to have to come to grips with the problem of comparing like with like, as the public and private sector firms compared often belong to different (and not comparable) sectors.

The studies discussed previously have shown privatisation to have been successful, unsuccessful or indicated mixed results. The next section examines studies that showed uncertain results.

2.7.4 Studies with Uncertain Results

a. Using total factor productivity, Foreman-Peck and Manning (1998) compared the performance of British Telecom (after it was privatised) with that of five telecommunications enterprises elsewhere in Europe and came up with ambiguous results. They found that BT was apparently less efficient than its counterparts in both Norway (where the company was state-owned) and Denmark (where ownership was mixed) but more efficient than those in Spain and Italy (where ownership is mixed). It is however unfair to make these comparisons as

[13] Some of these international studies are shown in Table 2-1. They include Adams *et al* (1992), Bishop & Kay (1989), Foreman-Peck & Manning (1998), Galal *et al* (1994), Boardman & Vining (1989), Picot & Kaufman (1989), Caves & Christensen (1980), Yunker (1975) and Meyer (1975) to name just a few.

these companies are operating under different environments (e.g. economic, social, technological etc) and conditions although they are under one industry.

b. A study by Carlin, Fries, Shaffer and Seabright (2001) analysed the impact of performance of ownership, soft budget constraints, the general business environment and a range of measures of the intensity of competition as perceived by a firm. They used a survey of 3300 firms in 25 transitional countries to identify the factors that influence restructuring by firms and their subsequent performance as measured by growth in sales and in sales per employee over a three-year period 1996-1998. They concluded that it has been hard to identify any clear or unambiguous effect of changes in ownership or corporate governance on the performance of affected firms.

To conclude this section, according to Nellis (2000), privatisation has produced poor results in many contexts, including Russia. However, he still maintains privatisation, despite some of its notable failures, remains the "preferred course of action". But then he goes on to argue that IFSs must be responsible for the poor outcomes since they encouraged transition governments to privatise rapidly and extensively, assuming private ownership would generate fruitful benefits. The IFSs must be condemned for these failures as there were no guarantees that success would be achieved like in the powerful states. On the contrary, Mohan (2001) believes there are good reasons why privatisation may not yield quite the same impact in LDCs as in the developed world. It has become obvious that, broadly, two conditions need to be satisfied for successful outcomes to result from privatisation. The first condition is high degree of competition. The second is institutional and regulatory capacity. In many LDCs, neither of these conditions, and particularly the second, may be adequately met. While several LDCs have moved towards opening up their economies, these economies continue to be characterised by weak law enforcement, thin capital markets, and the absence of mechanisms that spur private sector performance such as takeovers and monitoring by institutional shareholders (many of which apply in the Indian context). The last section summarises the chapter and introduces the next one.

2.8 Summary

This chapter has presented the various definitions of privatisation for one to get a clear understanding of what privatisation is all about. A literature review concerning privatisation in general has been presented with emphasis on privatisation theories and concepts. The objectives of privatisation have been outlined together with the key issues, advantages and disadvantages. There are mixed results about whether privatisation really yields excellent results, or whether private sector ownership outperforms public sector ownership in terms of improved efficiency, enhanced service delivery and/or increased investments. Some studies however show the complete opposite of this which makes it rather confusing as to whether privatisation is the right vehicle to better things. Privatisation might be important in developed economies, but its status remains uncertain in less developed countries as most of them were compelled to follow the privatisation route because of pressure from international financial institutions. Most Third World countries are in serious cash trouble as they rely on donations from wealthy countries and international donors. In the latter case, privatisation was perceived to be a good move to overcome this problem.

The next chapter explores privatisation in Lesotho as the study focuses on its impact with respect to ownership and corporate performance of previously SOEs, now turned into private entities.

CHAPTER THREE

PRIVATISATION AND PRIVATE SECTOR DEVELOPMENT IN LESOTHO

"Government has no business to be in business...."

3.1 Introduction

This chapter examines privatisation in Lesotho. Firstly, the country's experiences with respect to changes and developments brought about by privatisation are discussed followed by how it is being managed and implemented. The second part of this chapter discusses the methods which investors use to acquire new companies under transformation. It also explains the importance of these methods to concerned parties. Thirdly, the private sector participation in the economy of Lesotho is discussed. Lastly, some important utilities that are based in Lesotho are scrutinised with regard to their organisational change from public sector to private sector. This chapter builds on the previous one as it continues to present necessary literature needed to support the current study.

3.2 The Privatisation Process in Lesotho

The decision to privatise the state owned enterprises was as a result of a decision to move towards a free economy and consequently undertake an extensive reorganisation of the existing economy in Lesotho. The Government of Lesotho was unable to continue injecting money into the non-performing enterprises. Most companies in the country were originally owned by the Government hence it was believed that to improve the already unstable economy of the country, privatisation had to come into effect. Thus, the GOL decided to privatise over fifty (50) state-owned commercial enterprises to boost the economy. The Government's objective was to ensure sustained economic development in which the private sector takes the lead and the Government provides an enabling environment.

Privatisation in Lesotho has been an issue since 1993, but at first it attracted little attention because it was too new and it seemed far away. The Privatisation Act, which defines the policy and operational framework governing the privatisation process and programme, was enacted in November 1995. The Act established the Privatisation Unit (PU) as the agency responsible for carrying out the process on behalf of the Government, and defined various methods that could be used to effect the process. This process of privatisation started with the establishment of Lesotho Government privatisation and private sector development programmes with the assistance of World Bank in January 1996. Privatisation became an urgent issue in the late 1990s after the country experienced its first ever huge drop in economy caused by political instability. Many state-owned commercial enterprises were affected, hence the decision to privatise them came into effect.

The privatisation programme is being driven by the PU, which aims to foster a partnership between the GOL, the private sector, labour and the public at large to generate greater economic activity, new employment and widespread prosperity. Each participant has a crucial role to play; the GOL, through the PU, is responsible for steering the process to the benefit of the country as a whole; the private sector through providing fresh investments and increasing trade; and labour and the public by being active participants and supporters in entrepreneurial endeavour. Investors are encouraged to form partnerships with workers and the public, and minority shareholdings in privatised enterprises are reserved for both groups (www. privatisation.gov.ls). The PU is under the guidance of the Ministry of Finance. In other words, it is not free to take any decisions on its own discretion. Line ministers and management of SOEs are actively involved in all steps of the process, implying that there must be a consensus and compromises between all concerned groups (Privatisation Unit, 2001).

The main target the PU has to achieve is to reduce the public sector as quickly as possible and to find active entrepreneurial investors (Mohlalefi, 2000). Other objectives of the PU are:

- To restructure the economy in such a way that government would be unburdened of heavy subsidies to badly-managed state enterprises,

- To attract private sector management skills and capital,
- To allow government to concentrate on regulation and facilitative roles rather than on direct business operations which were distorting the functions of the public service,
- To broaden public participation in the economy through the purchase of state-held companies and shares,
- To provide adequate compensation and relevant retraining for retrenched workers, and
- To introduce competitive pressure and fiscal discipline required for increased production, improved service levels and job creations (Privatisation Unit, 2001).

It is the responsibility of the Privatisation Unit to ensure that such parastatals are sold for their market values. Other responsibilities or duties include planning, managing, implementing and controlling the whole privatisation process in the country, and deciding in consultation with relevant ministry and concerned managers of parastatals about the most appropriate methods of privatisation. The PU is assigned the duty to set tender rules, procedures and approval criteria for public and restricted tenders. Transactions such as bids, contracts of sale and lease agreements and any prospectus prepared in connection to a public offering of shares are negotiated by the PU as well. The PU, on behalf of the GOL, has the right to receive the proceeds from privatisation, authorise the conclusion of transactions that are worthwhile, and even sign the agreements or documents concerning any parastatal or property thereof. Not only is the PU responsible for concluding deals but it also monitors the performance of the purchaser's obligation under agreements and can even recommend to the minister the writing off of debts that are bad or irrecoverable (Malieane, 2003: 29).

The task of the director of the PU is to identify parastatals for privatisation under the guidance of the Ministry of Finance (Malieane, 2003). The *Basotho* are given first priority whenever there are any corporations (earmarked for privatisation) available for sale. The whole idea is to fulfil the Government's main objective of broadening direct *Basotho* participation in the privatisation process though in most cases foreigners end up being eventual owners as the former cannot raise enough capital to bid against the foreign investors. The problem of lack of technology and inefficient managerial skills also hinder their chances when it comes to competing with foreigners.

The PU may privatise a parastatal using various methods including:

1. sale of shares;
2. sale of a business as a going concern;
3. sale of specific assets;
4. management or employee buy-out;
5. management contract;
6. transfer of shares or assets to an investment trust or unit-trust approved by the minister;
7. franchising ; and
8. liquidation.

The 'sales of shares' is the most commonly known and widely used method around the world. It involves offering some or all of the government's equity in a SOE to investors. The objective of this method is to involve small investors and larger institutional shareholders in the purchase of state-owned assets. The greatest advantage of this method is that it can be used to promote wider share ownership as all members of the public are invited to participate in the offer. One problem is pricing the issue as it is not always easy to determine or value the market share price at that particular point in time. The method selected in privatising a SOE has an impact on the restructuring of the entity during and after privatisation.

The sale of specific or all the assets is also widely used as well. It involves the outright sale of state assets through auctions (Groningen, 2001). Selling state-owned assets to a strategic investor helps in concentrating ownership and restructuring of the enterprise after sale. The greatest advantage of a widespread sale is that it widens the effective ownership. It also provides a strengthening of the capital and securities markets by those having built up financial interest from their own resources. However, the drawback is the problem of ensuring effective monitoring (proper management) of these privatised enterprises.

The initial idea for Lesotho was to have over fifty state-owned commercial enterprises privatised so as to improve the economy that was hurt immensely by political riots in 1998. Lesotho, as an active member of SADC countries, has declared its support for privatisation. But the word 'support' implies that the origination of privatisation was from elsewhere and all that government did was to give the idea its blessing. In her research study, Makhakhe (2003) quotes Makoa as saying:

> [I]n Lesotho, as in many developing countries, public enterprises were established not just to consolidate independence, but also to solve four interrelated problems which have continued to plague the enclave country in the 1990s. These are the dearth of development capital, high rates of unemployment, underemployment and chronic external dependence. Public enterprises were established to fill the gaps left in the economy by private enterprises, to promote greater national economic independence, to provide some measure of check over or at least competition with the private sector (Makoa, 2000: 124).

In his article: *Privatisation of the media and national survival in Lesotho,* Mohlalefi (2000) points out that "privatisation as a concept has both national and international implications. The idea of privatisation seems to have been aimed at 'taming the governments' in developing countries." Since the latter depend largely on the economy of developed countries, they usually found themselves in situations whereby they have to follow this idea of privatisation even though it would not do them any good to their economies in the long run. Such countries are often left vulnerable simply because they want to be in good books with the World Bank and International Monetary Fund. Mohlalefi (2000) thinks privatisation *per se* has contributed in making the country even weaker as nobody benefited from it. Instead, enterprises that were previously stated-owned have become profit-oriented which was not the case initially as they were meant to provide goods and services to the nation. By creating these enterprises the State filled a vacuum for the sake of development (Mohlalefi, 2000). For instance, both the Agric Bank[14] and Lesotho Bank[15], which were established after independence to address economic needs, have been sold and the country now depends on South Africa for its savings and economic development. The Lesotho Bank's majority shares are owned by an outsider and Agric Bank has been liquidated. Lesotho no longer owns or controls its banking system as most of the existing banks in the country are now South African based ones.

3.3 Private Sector Development

The changing economic circumstances within Lesotho and in the southern Africa region call for a much stronger private sector participation in the economy in partnership with other regional investors. In the late 1990s, the Lesotho economy suffered from a high unemployment rate where up to 45% of the work-age population were without jobs. The GOL could not create any more jobs. As a result the Private Sector was called upon to provide new capital investment, new managerial skills, new market and supply linkages, in order to generate new jobs. Hence, the PU has established means and ways in which *Basotho* could fully take part in this privatisation process which would benefit them in the long run. The PU came up with methods that would secure stronger participation of the nation in the economy as investors. These public participation methods are direct and indirect participation methods which are discussed in the next sections.

3.3.1 Direct Participation

This refers to *Basotho* actually being part of the privatisation transaction. That is to say, a *Mosotho* (singular of *Basotho*) has directly participated in privatisation if he/she has become a shareholder in the newly privatised company and as a result qualifies as a direct owner. In other words, he/she is also regarded as a strategic investor through direct participation. Direct participation can be through leasing (i.e. the lease owner being a

[14] Also known as the "Lesotho Agricultural Development Bank" got liquidated in December 1999.
[15] Lesotho Bank was privatised in August 1999 by disinvestments of a 70% shareholding to Standard Bank with the GOL retaining 30% in the new Lesotho Bank 1999 (Pty) Ltd. Please see section 3.5.5 for further details.

Mosotho), renting, purchasing of assets and/or other privatisation moralities. Even though the size of enterprises in the portfolio varied, most of *Basotho* could not afford to purchase them as they were too large and costly for the traditional individual ownership. They faced difficulties of raising funds from commercial banks and the absence of resources for venture capital made it even harder for them to come up with convincing bid documents as part of the project. For instance, the management of Loti Brick[16] and employees of Maluti Highlands Abattoir[17] expressed interest in employee buy-out arrangements, but neither were able to raise the requisite capital. Although the PU suggested and was willing to arrive at affordable payment arrangements, none of these were followed up to successful conclusion by the groups (Privatisation Unit, 2001: 7).

However, a three-year lease arrangement with the option to buy was arranged successfully in the case of Marakabei Lodge[18] and in another case the government managed to sell its 12% shareholding in Vodacom Lesotho (widely perceived to be profitable) to a certain Sekhametsi Investment Consortium formed by the public to raise funds to secure this offer. Consequently, this initiative has generated great public interest and hopefully there will be additional investments of this nature from the general public that are likely to follow in other privatised companies.

3.3.2 Indirect Participation: Establishment of the Lesotho Unit Trust

This refers to promotion of local participation in the share ownership of divested Government assets (investment fund) through the vehicle of the Lesotho Unit Trust for the nation. Individuals who purchase units from the Lesotho Unit Trust and become unit holders are indirectly participating in the whole privatisation programme.

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[16] The PU had been interacting closely with Lesotho National Development Corporation to develop strategies about restructuring the privatisation of Loti Brick.

[17] Following several offers from interested investors that proved to be unfruitful, the cabinet directed that Maluti Highlands Abattoir should be leased out than be sold. The divestiture of the enterprise was complicated by its records of poor financial performance (the entity has been a loss-maker since 1992 with accumulated debt of about M30m), unresolved questions of land title and its association with the Government's Feedlot Property.

[18] Marakabei Lodge was sold to MCM Enterprises – a local company owned by a *Mosotho* businessman – for the amount of M340 000.00 that was granted in November 2001.The Lodge had been non-operational from 1992 until sub-leased in April 1998 under the privatisation programme.

After the failure to establish the Stock Exchange, the cabinet approved the establishment of the Lesotho Unit Trust in February 2000 and agreed to grant a number of tax exemptions and subsidies to maximise the chances of good returns from the Lesotho Unit Trust. The Lesotho Unit Trust was duly established and inaugurated on 16 August 2001 under the framework of the Central Bank of Lesotho (Collective Investment Schemes) Regulations 2001 whereby *Basotho* could buy shares in the privatised companies. The main reason for this establishment was a response to a complaint from *Basotho* that they had not been afforded the opportunity to purchase shares of former state-owned enterprises and to promote this, the government has to sell shares to the trust at a 30% discount.

A private management company (Standard Bank Lesotho Unit Trust (Pty) Ltd.) was recruited through a competitive tender process to establish and operate the Lesotho Unit Trust. This management company, among other duties, assesses which privatised enterprise shares are suitable for inclusion in the Lesotho Unit Trust and markets this new investment opportunity to make people aware of its benefits but also its risks. Companies whose shares would be sold to the public through the Lesotho Unit Trust should have established a clear track record of at least 3 years of recorded profitability. This is to lessen the risk of investors suffering losses and thereby undermining the credibility of this investment vehicle. The main reasons on which the structure and portfolio of the Lesotho Unit Trust are based on are:

- Accessibility – investors must have ready access to their savings.
- Competitiveness – the investment opportunity must be attractive in terms of risk and returns compared with other opportunities in Lesotho and South Africa.
- Low Risk - the possibility of loss of original investment must be minimised to avoid the complete loss of confidence in capital market development.

A briefing from the Central Bank of Lesotho has made it clear that composition of the fund would be balanced, with a significant portion of foreign equities, government securities and cash. The other reason for this funding was to help out *Basotho* mine-workers working in South Africa to have something to fall on in terms of investing in their country and helping it to develop. The Lesotho Unit Trust received investments of about M1.4m (equivalent to R1.4m) in its first two months of operation. In the financial year ending 31st March 2003, the Lesotho Unit Trust had two privatised enterprises included in its investment portfolio, while the value of each unit grew by 14.24%. This was seen as a remarkable achievement given the recent turbulence of equity markets across the world and the short time in which it has been operating (LUSRP, 2003:14).

Both these public participation methods (direct and indirect participation) are highly recommended by the GOL through its PU for local investors to enable them to hold shares in the newly privatised companies[19] as they are largely funded by the government and are considered to entail reasonable prices.

The next section examines the Lesotho Utilities Sector Reform Project (LUSRP) outlining its importance to and functions in the privatisation era in Lesotho, followed by a detailed discussion of the utilities in Lesotho before and during privatisation.

3.4 Lesotho Utilities Sector Reform Project

The Lesotho Utilities Sector Reform Project (LUSRP) is part of the economic restructuring programme of the Government of Lesotho. The objective of the project is to improve the provision of utility services with the involvement of the private sector and in the process to improve the essential infrastructure for businesses. The LUSRP has to pave the way for the private sector investment capital and management to participate in the improvement of the coverage, efficiency, affordability and reliability of the electricity and telecommunications services. The formal launch of LUSRP was in May 2001. The LUSRP is jointly financed by the WB, the African Development Bank, the European Union and the GOL to the amount of US$39.35 million (estimated at M400 million). One of the key objectives of LUSRP is the restructuring of the electricity sector with a view to improving and expanding the delivery of electricity in Lesotho ((LUSRP, 2002: 4).

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[19] Lesotho Bank '99 (Pty) Ltd and AON Lesotho (Pty) Ltd have so far reserved shares for employees. They are both discussed in detail in section 3.5.

During the 1990s there was a rapid and significant deterioration in the Lesotho Electricity Corporation (LEC). By 2000, the LEC was associated with several unfavorable characteristics such as operating inefficiency, substantial technical and non-technical losses, substantial financial losses as a result of a total collapse of its billing system in 1997, high operating costs and a lack of accurate data regarding its customer database. This being the case, the GOL identified the involvement of a strategic investor as the optimal tool for addressing the LEC problems and bringing the management practices within the LEC up to industry model practice, and most importantly achieving greater access to electricity in Lesotho (LUSRP, 2003:6). The LUSRP was therefore negotiated by the GOL with the World Bank, ADB and the European Union.

The LUSRP came up with a two-step approach in helping to restructure the LEC; Firstly, the appointment of an interim management at the LEC to bring the LEC operations up from very a poor situation to an acceptable standard on which the privatisation process could be based. Secondly, a Sales Advisory Group was appointed to assist the PU in implementing the Government's decision to sell the LEC. All these were achieved by the end of 2001, with the finalisation of a privatisation scheme for the LEC planned in April 2002. However, to date the privatisation transaction has not yet been completed. (It was supposed to have been completed in September 2004.) Some members of the public, the researcher included, are under the impression that the LEC has long been privatised which unfortunately is not the case. It seems that the bidding process for the buyer is still on-going, though the number of bidders has been short-listed to three. Interestingly, by December 2001, about 164 LEC employees had already lost their jobs.

The following section discusses the utilities that were once government-owned. These utilities are discussed in detail in the following section. It is worth mentioning that the acquisitions of these utilities differ depending on the type of the utility, the acquirer and other stakeholders involved in the whole transaction. Not all of them have managed to be successful in the competitive industries due to different circumstances.

3.5 Utilities in Lesotho

A utility can be defined as a commodity or service provided for the public such as a transportation, electricity, water or gas supply. A natural monopoly is most obvious in these industries. Lesotho has shown its commitment to privatisation with the sale of the Lesotho Airways Corporation, Lesotho Flour Mills, Government Plant and Vehicle Pool Service, Minet Kingsway (Pty) Limited, Lesotho Bank, Lesotho Telecommunications Corporation and Vodacom Lesotho (www.privatisation.gov.ls: 29/10/2004). The country has successfully privatised all these entities (Appendix B) and was set to privatise fully or partially Lesotho Electricity Corporation, Loti Brick, and Radio Lesotho.

3.5.1 Lesotho Airways Corporation (LAC)

The first enterprise to be privatised was Lesotho Airways Corporation (LAC) during the latter part of 1997, through the sale of assets for operation of the business (aircraft, spares, etc) to a South African based company, ROSSAIR. LAC was technically insolvent at privatisation, and had become a chronic recipient of an annual government subsidy amounting to at least M5 million over a period of 5 years. The sale excluded assets relating to landed properties which remained under the ownership of the Government (Privatisation Unit, 2001; 3).

Lesotho Airways Corporation was founded in terms of the Lesotho Airways Order No. 50 of 1970 and commenced operations in 1971. This 100% government owned corporation provided national and international air transport. The Government policy objectives for the privatisation of LAC were to eliminate the fiscal burden and to sell a controlling interest in LAC to a strategic partner capable of providing adequate services. LAC was sold to Rossair Contracts (Pty) Ltd in 1997, following normal privatisation procedures stipulated in the Privatisation Act of 1995 and its Regulations. A new company 'Air Lesotho' was registered to operate domestic and international routes of the LAC in accordance with the applicable laws and was designated Lesotho flag carrier. Air Lesotho ceased its operations in February 1999 because it could not sustain the competition from Air Link, a subsidiary of South African Airways whose decision to exercise its right to fly to Lesotho coincided with the privatisation. Seemingly, Air Lesotho again suffered three great misfortunes: firstly, it had to face a strong external competition early in its existence, secondly it was handicapped by outmoded sector regulations and finally, air traffic was seriously disrupted by the civil unrest of September 1998.

On a sad note, the privatisation of Lesotho Airways Corporation led to the retrenchment of all the employees. There is no denying that this proved exactly to observers what the labour unions had initially anticipated, about the negative impacts of privatisation. The privatisation experience in general has shown that privatisation in Lesotho is indeed accompanied by retrenchments because of historic overstaffing in state enterprises (Privatisation Unit, 2001: 4). The Government of Lesotho were of the opinion that some of the workers did not really qualify for terminal benefits as they were considered to have contributed towards the downfall of the enterprise. However, it was not an easy task to pin-point those responsible. As a result the Government was obliged to pay the benefits which proved to be an expensive exercise. In addition, the Government had an obligation to protect workers from a situation which could have happened anyway had the Government not decided to liquidate this and other similar enterprises.

3.5.2 Lesotho Flour Mills (LFM)

The Lesotho Flour Mills (LFM), which was wholly (100%) owned by Government, was established as a trading partner under the Finance Act of 1975. Historically, the LFM was a profitable enterprise although it faced stiff competition as a result of the deregulation of grain products in Southern Africa in 1997. In May 1988, Seaboard Overseas Limited (a technical partner) of the United States bought the 51 % majority shares. Of the 49% that is retained by the Government, 39 % was reserved for *Basotho* participation through either the Lesotho Unit Trust or any other means, while the remaining 10 % was reserved for an Employee Share Ownership Scheme. The sale included a "Golden Share" provision to ensure a protection of the vital national interests in the company. It was claimed this divestiture highlighted the high sensitivity attaching to a crucial staple food processing and marketing enterprise (Privatisation Unit, 2001: 4).

The policy objectives for privatisation of Lesotho Flour Mills were to improve efficiency of LFM by introducing a technical partner, and to introduce *Basotho* participation and LFM employees to shares ownership in the enterprise. The employees benefited a lot by gaining better dividends from the entity's privatisation because of its historically profitable performance and positive worker morale. Moreover, a group of employees even showed an interest in purchasing some shareholding in the enterprise after being listed for privatisation. This was perceived to be a good sign and that employees had faith in its operations. As a result, 10% of the shareholding was reserved for them and a payment mechanism for this employee share ownership scheme was devised. Employee share ownership schemes have many advantages for both the employees and the employer which are aimed at making the employees feel part of the company and by virtue of owning shares they stand to benefit from its success. Employees are therefore motivated to work harder to make the company a success, while the employer benefits as the scheme motivates the employees to stay with the company (LUSRP, 2003:28).

The management, in consultation with the World Bank made recommendations about setting up this employee share ownership scheme as it was considered to be a complex exercise which required technical expertise. The PU could not provide any assistance in this matter, hence assistance was asked for from outside. Again, the setback was that most employees of the Lesotho enterprise did not have readily available funds to pay for their shares. As part of the sale agreement, the strategic investor agreed to take over the contracts of all workers, with the GOL undertaking to meet the retrenchment packages of workers retrenched during the first year of operations. The investor undertook to allocate funds for the retraining of workers retrenched during the first three years of operations. These workers were retrained for alternative employment through the entrepreneurship training component of the project. Subsequently arrangements were made for those who passed their training programmes to receive start-up loans for their own businesses from the training fund (Privatisation Unit, 2001: 5).

According to Goliath website (www.goliath.ecnext.com), updated 19th April 2005, Lesotho Flour Mills had 334 employees in its disposal and the sales revenue amounted to \$353,387.80m for the previous accounting year. Attempts to conduct interviews with management to find out latest developments about the enterprise both financially and socially were turned down without clear reasons from those concerned.

3.5.3 Plant and Vehicle Pool Services (PVPS)

Plant and Vehicle Pool Services (PVPS) was established under the technical control of the Ministry of Works and the administrative control of the Ministry of Finance. Its responsibilities included purchasing and maintenance of all Government plant and vehicles; storage and provision of spare parts; allocation of equipment and vehicles to all Government ministries and departments; and supply of fuel and lubricant necessary to operate all Government equipment and vehicles. In its initial privatisation scheme, PVPS was divided into its nine components each of which was viewed as affordable and manageable for local investors. In December 1997, forensic investigation into the operations of the service revealed serious fraud, abuse of public funds and mismanagement, which forced the government to accelerate the privatisation of the entity. An interim management team with the mandate to seek a buyer for the enterprise was engaged in 1998, and the enterprise was eventually privatised through the sale of majority shares (80%) to Imperial Fleet Services of South Africa in January 2000. The remaining 20 % would be available to *Basotho* through purchase of shares in the Lesotho Unit Trust.

The Government of Lesotho used to own and maintain its vehicles, but after this arrangement the Government now leases up to two thirds of its vehicle fleet needs from the private sector which has surprised and confused many members of the public. 'Imperial Fleet Services (Lesotho)' as it is now known has leased some of the Government workshops and the Government has sold those that are no longer needed. The privatisation of PVPS has drawn a lot of criticism from those who claim the vehicle and leasing arrangements with Imperial Fleet Services (Lesotho) are too costly

(Privatisation Unit, 2001). To this effect, the government has been monitoring the costs closely and arrangements for a professional review were envisaged.

According to the PU website (accessed 10th December 2004), in an interview that was held on 23rd July 2001 with Mr. Lerato Litabe[20], when asked about the number of former employees of PVPS that was absorbed by Imperial Fleet Services, he responded "All staff in the districts were former employees of PVPS. Around 40 percent of the staff in Maseru including all accounts staff were former employees of PVPS. There was no binding clause in the contract that stipulated that Imperial Fleet Services should hire staff from the former PVPS after retrenchment." He went on to comment that there are four local citizens occupying senior management positions, although the board of directors comprises mostly foreigners. The reason for this is that the parent company "Imperial Fleet Services Group" owns the majority shares of 80 percent (80%), thus board representation is in proportion to the shares owned. During the period from April 2000 to February 2001 when Imperial Fleet Services was operating at the old PVPS premises, the following amounts were paid (accrued) to the government of Lesotho:

- M8, 518,223.00 for Corporate Tax
- M1, 737,051.00 for Income Tax
- M47, 637.00 for Fringe Benefits Tax
- M4, 460,337.00 for other taxes
- M1, 557,936.00 for renting PVPS premises

The total amount paid to government amounted to M16, 321,184.00 (www.privatisation.gov.ls)

As the Government of Lesotho has 20 percent of the shares in Imperial Fleet Services, it is therefore entitled to benefit in the profits made by the company. The estimated profits for the financial year (2002) were around M16 million. The government's share of this

[20] Marketing and Public Relations manager of Imperial Fleet Services (Lesotho). The purpose of the interview was to find out the benefits that the privatisation of the former PVPS has brought for the Government of Lesotho and how the new company, Imperial Fleet Services is being managed.

amount was estimated at M3.4 million. The sale of government vehicles to Imperial Fleet Services amounted to M72 million, with an estimated M10.9 million spent for the purchase of other activities and operation formerly used by the old PVPS.

There have been allegations reported by the *Mail & Guardian* in March 2003 that there was a damning but contested report commissioned by the Lesotho Government that accused Imperial group of not giving the mountain kingdom its money's worth in a multi-million rand vehicle fleet outsourcing contract. The commission investigated into specifically Imperial's contract, looked at among other things, whether the charges "imposed" by Imperial on the Lesotho Government were "in accordance with agreements". The 80-page report, compiled by MMR Advisory Services claimed that Imperial engaged in business practices that financially disadvantaged the Lesotho Government, the company charged the Lesotho Government higher daily rates on short-term rentals than on normal private hire in Lesotho, the company failed to issue monthly reports to relevant ministries in time and the Imperial's reports were only received in the first year of the contract.

Under all these circumstances, the report suggested Lesotho Government should withhold payment to Imperial as a penalty for failing to submit the monthly reports, however, the Government should not terminate Imperial's contract but rather seek "to renegotiate certain terms and conditions, improve its monitoring and enforcement capability with respect to the agreements". Walter Hill[21] hit back at the report, saying it was "flawed and has never been published". On the other hand, Makalo Ntsasa[22] said the contents of the report were then confidential and could not be publicised while it was still under the consideration of the Government of Lesotho. He however, assured the public that once completed, it would then be made available to them (www.mg.co.za).

[21]Imperial Fleet Services Managing Director. Hill declined to comment further, saying the *M&G* should "take it up with the Government of Lesotho".
[22] Senior Information Officer for the Lesotho Privatisation Unit.

3.5.4 Minet Kingsway (Pty) Ltd

In February 2002, negotiations were held between the Government of Lesotho and AON Risk Services UK whereby the latter proposed to take-over the shareholding of former Lesotho Bank in Minet Kingsway (Pty) Ltd, an insurance brokerage business. The GOL had earlier decided to divest its majority interest in this insurance company, hence AON Risk Services UK came up with a proposal. Eventually the latter ended up acquiring a total 95% shareholding after these fruitful negotiations, leaving the GOL with 5% which was to be transferred to the Lesotho Unit Trust for *Basotho* investor participation. AON (Lesotho) formerly Minet Kingsway (Pty) Ltd formally launched an employee share ownership scheme for its *Basotho* employees in fulfillment of the sale of share agreement between the Government of Lesotho and AON Holdings BV in April 2002. The objective of this scheme is to extend the benefits of privatisation by affording its *Basotho* employees an opportunity to become part-owners of the company. The other benefits include having a representation on the board of the company, earning additional income through dividends and promoting the continued growth of the company (LUSRP, 2003: 23). Presently, the company has a staff of 33 employees with estimated revenue of \$40.10m for the accounting year ended 31st March 2005.

3.5.5 Lesotho Bank

The situation of Lesotho Bank (LB) had gradually deteriorated over the years as a result of inadequate management and political intervention. In 1995, the bank was forced to recognise this situation and for the first time in its history the bank reported losses amounting to some M58.3 million. The situation was made worse by the collapse of the bank's management information system in 1997. During this period, as part of major developments, the World Bank made a decision in its mid-term review of December 1-14, to give high priority to the restructuring to the state banking and utility companies including Lesotho Bank. International Development Ireland (IDI) was appointed as conservator for both Lesotho Bank and Lesotho Agricultural Development Bank (LADB) in December 1997. By 1999, the government was injecting M20.0 million a month (or M240.0 million a year) in the bank in order to keep the bank operational and to safeguard depositor's funds. The financial restructuring of bank has cost the GOL some M612.0 million, of which M15.0 million was used to secure the government's 30 % shareholding in the new Lesotho Bank.

In February 1999, the Standard Bank of South Africa was identified as a strategic partner, and the whole privatisation process kicked-off. Lesotho Bank was privatised in August 1999 by disinvestments of 70% shareholding to Standard Bank with the Government of Lesotho retaining 30% in the new 'Lesotho Bank 1999 Limited.' Fifteen (15%) percent of the thirty (30%) shareholding that was kept in trust by government for *Basotho* was sold to the Lesotho Unit Trust. After this acquisition by Standard Bank, the GOL was relieved of having to inject billions into the bank in order for it to survive and continue with its operations. The Lesotho Agricultural Development Bank was finally liquidated in December 1999. On 2nd August 1999, when Standard Bank took over the management of Lesotho Bank, 460 employees were re-employed and the company continued with management of the old bank (Nchake, 2000).

Currently, the company seems to have improved financially as in April 2005 it was reported to have achieved yearly sales turnover of $9,943.30m. Again, the number of staff members has increased to 714. The clients of the bank once again enjoy a variety of benefits from the bank's financial services menu – be it personal or corporate banking, trade or housing finance, or international transactions. The bank is involved in numerous correspondent relationships and strategic alliances with major international banks throughout the world and is increasing its ATM network countrywide, thus further improving availability of banking services to its customers.

3.5.6 Lesotho Telecommunications Corporation (LTC)

Lesotho Telecommunications Corporation (LTC) was created by the Telecommunications Act No. 12 of 1979 as a limited liability corporation wholly owned by the Government of Lesotho. Its major tasks were to establish a telecommunications network throughout the country, to maintain the network to ensure maximum service, and to supply telecommunications services throughout the country. LTC was controlled by the Ministry of Communications through the board of directors. Initially, the company managed to fulfil its tasks such as making telephone connections within the main towns of Lesotho, until it began showing signs of deterioration in service delivery. This was caused by many setbacks which resulted in it failing to provide and deliver services to the public. It became subject to a huge debt of about M56 million. The LTC resorted to the Government to inject some money to finance its operations.

Malieane (2003) raises the point that while in operation, the LTC was able to install 25000 telephone lines for over a period of 20 years, and was faced with a demand for telecommunication lines of about 22 000. That meant it would take it another 20 years to meet this demand. Therefore it was rendered inefficient and ineffective in its operations by the then existing telephone network under which it functioned and this made it unable to support high-speed data transmission and many other services. In 1996, the company was reported to have made a loss of M3.9 million, and the following year, a loss of M12.9 million. On its books, there were 20 000 applicant customers who LTC could not connect and service because of lack of capital and capacity. The need to expand access to telecommunications services, improve the affordability, the reliability and the quality of these services and attract investment into the country prompted the GOL to privatise LTC.

In line with this policy, the Lesotho Telecommunications Authority (LTA) Act was passed before Parliament in June 2000 to establish an independent regulatory authority and LTC was concurrently incorporated under the Companies Act as 'Telecom Lesotho' (TCL) to act as service provider. The regulatory authority is mandated to ensure that TCL and other telecommunications service providers in Lesotho conduct their business in an efficient and productive manner that would protect and serve the interests of consumers. Seventy percent (70%) of the Government's shareholding in Telecom Lesotho was sold in November 2000 to Mountain Communications (Pty) Ltd and the Government retained 30% for eventual sale to *Basotho* investors. Mountain Communications was to offer 5% of its 70% shareholding to an Employee Share Participation Scheme. In December 2002, TCL informed the Privatisation Unit that the board of TCL had approved documentation of the scheme and the process and registration and implementation was underway. Given the small market size in Lesotho and the poor state of the company at the time of privatisation, TCL has been granted a five years exclusivity period for provision of fixed line telecommunications services. The regulatory authority would monitor TCL's performance against specific targets that have been set, some of which are listed below, and are subject to penalty if not met.

The specific targets are to:

- Provide capacity for at least 40 000 new connections in the first year;
- Connect at least 50 000 new lines in the first five years;
- Ensure provision of at least 1 250 pay phones in the first five years;
- Establish internet access capability in the main commercial centres in the first year; and
- Achieve quality of service to defined minimum standards, which will increase steadily over the first three years.

It is worth emphasizing that during privatisation about 285 staff members were retrenched leaving the company with about 500 employees. LTC was considered to be overstaffed which is strange considering how the work was slow in terms of service delivery. Telecom services in Lesotho have a history of inadequate availability, poor quality and lack of reliability. However, the industry has seen a gradual transformation from a state-owned monopoly for fixed services, to a privatised, privately majority-owned national operator in late 2000 and finally competing in the mobile sub-sector through a subsidiary. Mobile penetration approached 6% in mid-2003 compared with a fixed-line teledensity of below 1.4%. Increased investment from Telecom Lesotho's strategic partners is taking place to reduce the waiting list and increase teledensity. This in turn will foster growth in Internet penetration. By March 2005, Telecom Lesotho had completed installation of Data Network for provision of digital leased lines to cover all major towns of Lesotho. This is meant to extend business and services to all parts of Lesotho.

3.5.7 Vodacom Lesotho (VCL)

Vodacom Lesotho was the first cellular network in Lesotho. It started its operations in May 1996. The sale of Government's shareholding in Vodacom Lesotho was part of Government's major programme for the restructuring of the telecommunications sector. The Government of Lesotho began its privatisation process in 1999 and invited bids for the Lesotho Telecommunications Corporation's shares in Vodacom Lesotho (Pty) Ltd. The Sekhametsi Investment Consortium Ltd was identified as the successful bidder in July 2000. The Government's 12% shareholding in Vodacom Lesotho was therefore sold in November 2000 to Sekhametsi Investment Consortium (*Basotho* investment group registered in Lesotho). Vodacom International Holdings, a subsidiary of the Vodacom Group, holds the majority 88% stake in Vodacom Lesotho.

The sale was meant to enable the privatised Telecom Lesotho to obtain a licence from June 2001 to become the second cellular service provider in the country. The objective was to create competition in the cellular operators' market, leading to more rapid and efficient provision of cellular services. The preferred investors were selected on the basis of a competitive tender process. Bids were assessed on the basis of offer price, bidder's access to financial capital and the level of *Basotho* participation in the bidding party. During its early operating stages, the company met its target of connecting 100 000 subscribers in a decade. But because of a stiff competition from the second cellular provider introduced in 2002, the company began performing below par perhaps due to, amongst other reasons, a high rate of staff turnover.

An attempt to conduct interviews with managers and distribute questionnaires to employees for this study was unfruitful as there is a memorandum circulating within the company not to disclose any information concerning the company to scholars or academic researchers.

This section concludes the discussion about the utility markets in Lesotho, how such companies ended up being privatised, what led to that transition and how they are performing to date after so many changes. The next and last section shows a progress assessment of these utilities after privatisation, in other words, the proceeds that the Government recorded after privatisation or divesture of these utilities.

3.6 Progress Assessment: Privatisation of Utilities

Of the fifty (50) enterprises that were earmarked for privatisation, half of them had been privatised by early 2001 (Appendix A). Table 3-1 below shows a list of only eleven (11) privatised entities from 1995 to early 2001 and the gross proceeds of the Lesotho Privatisation Programme that were deposited in the Special Accounts held at the Central Bank Lesotho as required by the Privatisation Act No. 9 of 1995. Unfortunately, the Lesotho Privatisation Unit website does not have an up-to-date list of privatised entities, as the list reads from 1995 to 2001. This makes it difficult to establish if there are any additions to the initial list. The privatisation process seems to be slow due to failure to secure new investors, insufficient capital, poor marketing of such enterprises and the delays in finalising deals.

Table 3-1 LESOTHO: Privatisation in Lesotho 1995 – 2001

As at 31 March 2001

Name of privatised Enterprise	Gross Proceeds (US$ m)
1. Plant and Vehicle Pool Services	11.53
2. PVPS Plant Building	0.18
3. Minet Kingsway	0.22
4. Avis (Lesotho)	0.05
5. Lesotho Airways Corporation	2.40
6. Lesotho Flour Mills	10.82
7. Marakabei Lodge	0.024
8. Lesotho Bank	
9. Lesotho Telecom Corporation	17.00
10. Orange River Lodge	0.17
11. Vodacom Lesotho	0.70
US Dollars:	**43.09**
Maloti:	**292,466,796.00**

(***Source***: Privatisation Unit Final Report, 2001:11).

Note: In addition nine (9) privatised enterprises were liquidated by the end of the reporting period. Six (6) were still in the pipeline. The gross proceeds as at 31st March 2001 stood at the equivalent of US dollars 43.09 million.

Both the Lesotho Telecommunications Corporation and Plant and Vehicle Pool Services contributed huge amounts of proceeds to the Government; US$17.00m and US$11.53m respectively. They were large enterprises compared to others and possessed assets of high value. An interesting fact is that Lesotho Airways Corporation was sold entirely and was liquidated after a short period of its operation. The table does not show any proceeds from the Lesotho Bank to the Government though the bank was wholly government-owned. Perhaps it is because the GOL was actually sponsoring the bank in almost everything because it was a loss-making concern. The continuing costs of liquidation of some of the former state enterprises have also complicated the determination of the net proceeds of privatisation of state enterprises as liabilities exceed assets as in the case of Lesotho Airways and the former State Banks. The question that arises is: "Was it a right move for the Government of Lesotho to privatise these entities?" Only empirical evidence can prove this and at least try to answer this question.

3.7 Summary

The whole privatisation process in Lesotho has been discussed, with the objectives clearly stated and all major stakeholders participating in this era taken into consideration. Privatisation is an evolutionary process that calls for major changes in the way the economy is managed. The fundamental questions that are being asked are whether private sector ownership of key enterprises will deliver better service, increased employment opportunities, faster development and lead to better allocation of limited national resources for education, public health and judicial services. All these factors of privatisation have been considered especially in a country like Lesotho which is the process of reinstating its economy. There are many changes that privatisation brings in which work for and/or against stakeholders. The various methods of privatisation have been mentioned with the sales of shares and sales of assets being the dominant ones. Natural monopoly is completely driven away with privatisation of utility markets, causing competition to take place which is believed to improve performance and efficiency of workers in new privatised enterprises.

Not all enterprises managed to make a break in new industries but over half are considered to be doing fine at least for now. Again, the high rate of unemployment that was already high has increased as there was a series of retrenchments. The Government of Lesotho tries by all means to include all stakeholders especially the nation in this privatisation programme through direct public participation of share ownership and decision makings. The country is still in the learning process and will be able to make its own conclusions in the long run.

The next chapter discusses the procedures; research methodology and instruments used in the study and the methods of analysis that are described in context.

CHAPTER FOUR

RESEARCH METHODOLOGY AND INSTRUMENTS USED

4.1 Introduction

This chapter provides an account of how the research study was designed and conducted. It is therefore structured in the following manner. Firstly, the research design is selected with emphasis given to the method of investigation used (i.e. what the researcher intends to find out and the best way to do it), and the research methodology that discusses and focuses on the research process. Secondly, the size of the sample and the sampling procedure are dealt with in respect to their essence to this study, thirdly data collection instruments (i.e. kind of tools and procedures used) and the reasons for choosing them are discussed, fourthly, the response rate obtained with regard to questions posed to respondents is analysed and the limitations to the study in general concerning obstacles encountered during data collection are discussed. Lastly, the data analysis techniques employed are considered in regard to their significance in this study.

4.2 The Research Design and Methodology Used

Research design is a plan or blueprint of how a researcher intends to conduct a study (Babbie and Mouton, 2003: 74). It involves designing a strategy for finding out something. There are two major aspects of research design; firstly a researcher must specify as clearly as possible what he/she wants to find out. Secondly, he/she must determine the best way to do it. In other words, before one can observe and analyse, one needs a plan to determine what one is going to observe and analyse, why and how. This study is evaluative in nature and its main objective is to assess the impact of privatisation, the significance of investors' ownership and the corporate performance of privatised companies in Lesotho.

Research methodology focuses on the research process, the kind of tools and procedures to be used, taking into consideration the point of departure (i.e. specific tasks at hand such as data-collection or sampling). Research methodology also focuses on the individual (not linear) steps in research process and the most "objective" procedures to be employed (Babbie and Mouton, 2003: 75).

For this current study, the survey method was chosen as a convenient primary data collecting technique. The survey method is used for collecting data from individual people, groups or interactions as units of analysis. Some individual persons serve as respondents or informants. Survey research can be defined as a means of questioning a respondent via a collection of questions and instructions for both the respondent and the interviewer (Cooper and Schindler, 2001: 774). Judd, Smith and Elliot (1991: 58) state that survey research is appropriate in situations where the researcher is not interested in causal relationships, but in knowing what people think about the issue. It is perhaps the most frequently used research design in the social sciences, as it can be used to collect original data for describing a population too large to observe directly (Babbie and Mouton, 2003). As a result the survey research method was considered appropriate for obtaining stakeholders' perceptions on the effects of privatisation of entities, ownership and corporate performance of such entities in Lesotho.

The size of the sample and the sampling procedure are discussed in respect to their significance to this study in the next section.

4.3 The Sample and the Sampling Design

The sampling frame for this research is employees and managers of these privatised entities in Lesotho, formerly government-owned companies. A total of one hundred (100) questionnaires were distributed amongst employees and managers of these entities. For the purpose of this study, a total of sixty one respondents from the surveyed entities namely; Standard Bank Lesotho (16), Telecom Lesotho (22), AON Lesotho (14) and Avis Lesotho (9) were included in the research design with their demographic details. These managers and employees are the ones who are actually dealing with day-to-day operations of such entities hence they are in a position to give answers believed to be suitable for this study. Again data obtained from the Privatisation Unit is also believed to be helpful for this study as it could not be found from entities themselves.

The sampling design chosen is "convenience sampling" because it is considered to be the cheapest and easiest to conduct. It can be defined as a "non probability method that takes units as they present themselves to the researcher" (Leedy, 1997: 204). Researchers have freedom to choose whomever they find. While this sampling design has no controls to ensure precision, it may still be a useful procedure for a researcher can take such a sample to test ideas or even gain ideas about a subject of interest. The results may present evidence that is so overwhelming that a more sophisticated sampling procedure is unnecessary.

4.4 Data Collection Instruments

A survey was administered to cover the following industrial sectors namely financial, insurance, telecommunications and transport in which these state owned enterprises that were converted into private companies are operating under. The strength of conducting a survey as a primary data collecting technique is versatility. It does not require that there be a visual or other objective perception of the information sought by the researcher. Abstract information of all types can be gathered by questioning others (Cooper and Schindler, 2001: 295). Information about past events is often available only through questioning of people who remember the events.

For collecting primary data from the respondents under survey method, both self-administered questionnaires and personal interviewing were used.

4.4.1 The Self-Administered Questionnaire

A self-administered questionnaire can be defined as a survey delivered to the respondent via personal (intercept) or non-personal (computer-delivered, mail-delivered) means that is completed by the respondent without additional contact with the interviewer (Cooper and Schindler, 2001). It is common that each form of data collection has advantages and disadvantages that the researcher needs to take into consideration as to the suitability of each technique to the research question, specific population targeted for research as well as relative costs. Cooper and Schindler (2001: 313) state that amongst some of the benefits of using questionnaires under self-administered survey, they are as follows. A questionnaire:

- allows contact with otherwise inaccessible respondents (e.g. Chief Executive Officers);
- allows expanded geographic coverage without increase in costs;
- requires minimal staff;
- is perceived as more anonymous; and
- allows respondents time to think about questions.

However, there are some disadvantages of using this research instrument over others such as:

- no interviewer intervention is available for probing or explanation;
- accurate mailing lists are needed;
- it cannot be long or complex;
- often respondents returning survey represent extremes of the population leading to skewed responses; and
- there are often low response rates in some modes.

Despite these disadvantages, a self-administered questionnaire was considered on the grounds that it is cheaper and quicker than interviews. Also it would be convenient for respondents considering the timing of this survey (end of the year) and their different workloads. According to Simon (1996: 80), there are a number of ways which can be used to secure a good response rate in postal questionnaires such as:

- the appearance of the questionnaire with reference to clarity of wording and simplicity;
- pre-testing the questionnaire;
- enclosing stamped envelopes for respondents replies;

- inclusion of a covering letter to convey the importance of respondents replies and assuring confidentiality;
- the use of follow-up inquiries; and
- the provision of incentives if possible.

All the hundred questionnaires were hand-delivered to these entities and collected after a couple of days. Their various management teams were responsible for their distribution amongst employees. In this study, due to the fact that Telecom Lesotho and Standard Bank Lesotho had a large number of employees, they were each given 30 questionnaires, whereas AON Lesotho and Avis Lesotho shared the remaining forty equally (Appendix C). These questionnaires were anonymous as all answers given were treated as confidential and were to be used purely for academic purposes. Respondents were asked to complete the questionnaires themselves. The front page of the questionnaire (Appendix D) had a covering letter that explained in detail what the research study was all about and what the respondents were expected to do in attempting to answer questions. They were expected to answer all thirty one questions as truthfully as possible. There were no right or wrong answers, they had to use their experience and knowledge to answer such questions. The self-administered questionnaire used, consisted mainly of questions that had simple category, multiple-choice single response, multiple-choice multi response and Likert Scale summated rating scales. Respondents were asked to choose from a list of relevant answers on a questionnaire and give their own answers for certain questions where appropriate.

The questionnaire (Appendix D) is subdivided into three sections. Section A comprised seven (7) questions which dealt with the general information about the respondents. Its purpose was to gather demographic details about the respondents. Respondents were asked to circle the correct answer. The questions that were asked were as follows:

1. ***What is your gender?***

    1. ***Male***
    2. ***Female***

This question was used to determine the gender of the respondent for statistical purposes.

2. ***What is your current age?***

1 Less than 30 years

2 Between 31 – 40 years

3 Between 41 – 50 years

4 More than 50 years

This question was also asked for statistical purposes to find out the age range of employees working in these privatised companies.

3. ***What is your educational level?***

1 Postgraduate

2 Undergraduate

3 High School education

4 Other

If you selected "Other", please give a precise description

....

This question was used to establish the educational levels of employees in their different departments.

4. ***What is your general area of work? (Please circle more than one option if applicable)***

1 Administration

2 Finance / Accounting

3 Marketing

4 Customer Services

5 IT/Engineering

6 Other

If selected "Other," please specify ....

Employees were questioned about their general area work, in other words the departments under which they are currently working, within their various companies.

5. In which sector is your company?

1 Communications

2 Transport

3 Water & Energy

4 Manufacturing

5 Food & Beverages

6 Other

If selected "Other," please specify ....

Similarly, employees were asked to mention the industrial sectors under which their companies are operating under to find out which sectors dominate in the marketplace nowadays.

6. ***This year included, how long have you been in this company?***

1 Less than 5 years

2 Between 6 – 10 years

3 Between 11 – 15 years

4 More than 15 years

This question was used to determine the length of service (number of years) that the respondents have been working for their companies. Those with long service (i.e. experience) would obviously be in a better position to provide extra valuable information compared to their counterparts.

7. ***What is your position in the company?***

1 Manager

2 Employee (permanent)

3 Casual employee

4 Other

If selected "Other," please specify ....

The final question in this section was used to determine the current position of the respondent in the company. This was used to distinguish between their various occupations in the company in terms of duties and responsibilities.

The second section (Section B) in the questionnaire comprised thirteen (13) statements against which respondents ranked their choices where applicable to their situations using the Likert Scale (1=**Not at all,** 2=**Inadequately,** 3=**Uncertain,** 4=**Satisfactorily** or 5=**Very well**) to measure their views and opinions on the listed characteristics or conditions with regard to evaluating the impact of privatisation in Lesotho in connection to ownership and corporate performance. There was a set of questions about the respondents' perceptions or views about what privatisation had done so far to meet or fulfill those listed circumstances. These questions read as follows:

To date, do you feel privatisation of your entity has done enough to fulfill or meet these circumstances;

8. ***Increased productivity?***

This question was used to find out from respondents whether privatisation has done enough to increase productivity at their entities. This was asked because mostly privatisation is associated with improving productivity at enterprise level and the economy at large as opposed to the public sectors.

9. ***Improved net operating profits?***

This question was used to find out whether, in the respondent's opinion, privatisation has improved entities' net operating profits especially when compared to them prior to privatisation. Increased productivity normally leads to increased sales and improved profits, hence this question is a continuation of the previous one.

10. ***Increased competitive pressure in the market?***

This one was used to establish if in the respondent's opinion, privatisation has indeed increased the level of competition in the marketplace. Normally, state-owned enterprises enjoy monopoly but once privatised, they bring in competition in the already existing market.

11. ***Attracted foreign capital and expertise?***

Again privatisation is associated with attracting foreign investments and foreign expertise in the country, hence it was thought best to ask this question investigating if in the respondent's opinion, this was really the case.

12. ***Improved service levels and job creation?***

Privatisation is perceived to improve service levels and creates jobs where necessary. This question was designed to confirm if in the respondent's opinion, jobs were really created because some people believe otherwise, while at the same time services are expected to improve.

13. ***Increased efficiency at enterprise level?***

If privatisation improves productivity, surely efficiency and effectiveness within the business by staff improve as well. The question was intended to establish whether in the respondent's opinion, efficiency within the entity has risen after privatisation.

14. ***Raised funds and reduced government borrowing?***

Unlike in the public sector, privatised entities have the advantage of raising funds and reducing public debts. Respondents had to give their opinions in respect to this statement.

15. ***Broadened direct public participation in the economy through purchase of shares?***

The Government of Lesotho had retained a certain portion of shares in each and every entity for them to be reserved for the nation for the future if they are interested in purchasing them. This was seen as direct public participation in the economy by the Government. Hence this question was designed to find out if in the respondents' opinions, privatisation had extended direct public participation in the economy.

16. ***Increased the share ownership interest in the enterprise?***

Respondents were asked to mention if in their own opinion, privatisation had encouraged them to become involved in enterprise shareholding structure. This was intended to find out because most entities had offered employees the opportunity of holding shares.

17. *Increased the level of presentation and disclosure of both financial and non-financial information to the public?*

It is common in Lesotho for companies not to disclose and present both financial and non-financial information to the general public due to the fact that such companies are not listed on the Stock Exchange, hence they are not compelled to do so. Because after privatisation, there are now many stakeholders involved including the public and investors, the question was intended to confirm if in the respondents' opinions the level of presentation and disclosure of both financial and non-financial information had gone to another improved level.

18. *Improved the level of reporting financial information to relevant stakeholders?*

Respondents were asked to give their opinions on whether the level of reporting financial information to relevant stakeholders has improved. All key participants have to be informed of all the business activities especially financial ones concerning the entity.

19. *Enhanced your entity in a way to comply with national or international accounting standards?*

This question was intended to find if in the respondents' opinions if these entities are now complying with national or international accounting standards because in the public sector, proper accounting is poorly practiced.

20. *Helped your entity to abide by the rules and regulations of the national regulator?*

The question was meant to find out from the respondents if in their own opinions, their individual entities abide by the rules and regulations of the national regulator. For example Lesotho Telecommunications Authority was introduced to oversee the telecommunications affairs just before privatisation of Lesotho Telecommunications Corporation and Vodacom Lesotho, so it was important to establish in the respondents' opinions whether the entities were in line with what is required from them.

The last section (Section C) consisted of eleven (11) statements, whereby respondents were expected to give their opinions with regard to the effects of privatisation on company stakeholders. A five-point Likert Scale was also used where the respondent had to make choices from 1=**strongly disagree,** 2=**disagree,** 3=**Uncertain,** 4=**Agree** or 5=**strongly agree**. These stakeholders who were still employees in this case were requested to give their opinions about the possible effects of privatisation in general. They were asked to choose the most appropriate alternative from a list of statements that read as follows:

21. ***Privatisation has a positive impact on an entity's performance.***
The respondents had to confirm if privatisation has had a positive impact on their entities' performance.

22. ***More opportunities are created for employees in privatised entities.***
As a result of positive effects of privatisation, respondents had to confirm if more opportunities such as job creations and advancements were seen in their entities to date.

23. ***Employees tend to be satisfied with working conditions in privatised entities.***
Again, respondents had to give an opinion about whether they were satisfied with their new working conditions. It is obvious that working conditions under both public and private sectors differ a lot.

24. ***Increased salaries/wages are guaranteed in privatised entities.***
Respondents had to state whether any increased salaries or wages were guaranteed in their new working environments. Normally privatisation is associated with better remunerations when compared with the public sector.

25. ***Increased workloads are experienced in privatised entities.***
Likewise, they had to agree or disagree with the fact that increased workloads are usually experienced in privatised entities.

26. ***There are fears of job loss/demotion/retrenchment in privatised entities.***

The main obstacle of privatisation is the fear of job losses, demotions and retrenchments of workers in their companies. Respondents were asked to give their opinions in this respect.

27. ***There are changes in bosses, colleagues and subordinates in privatised entities.***

Normally there are changes of management or ordinary staff members after privatisation of a company, thus respondents had to confirm it they had experienced these sudden changes.

28. ***There are changes in regulations, rules and procedures within the entity.***

Not only do changes happen within individuals but the company policies change as well. Similarly, respondents had to state if there were changes of any sort in the regulations, rules and procedures within the entity.

29. ***There is an improved individual performance in the entity.***

Respondents were asked to assess their individual performances by stating their own opinions as it is important to know if there were any improvements as opposed to the previous setup.

30. ***Privatised entities are better equipped to cope with globalisation.***

Respondents were asked to verify if privatised entities were in a state that was believed better to cope with globalisation in the now demanding and advanced world.

31. ***Extra capital is contributed in privatised entities.***

The last statement was to find a view from the respondents about whether privatisation had contributed a lot in terms of attracting fresh investments and improving resources.

Respondents were thanked for using their precious time in completing the questionnaires which proved important to this study. All questions and statements formulated on this questionnaire (Appendix D) were done by the researcher with the assistance from the researcher's supervisor while others were taken from researches by other scholars/academics. A pilot questionnaire for this study was never used due to time limitations. Another data collection method used to gather primary data was personal interviews with managers. This technique is discussed in the next section.

4.4.2 Personal Interviews

Cooper and Schindler (2001; 297) state that a personal interview (i.e. face to face communication) is a two-way conversation initiated by an interviewer to obtain information from a respondent. There are real advantages as well as clear limitations to personal interviewing. The greatest value lies in the depth of information and detail that can be secured. It far exceeds the information secured from telephone and self-administered mail surveys. Interviewers also have more control than with other kinds of interrogation. However, this method is costly in terms of both money and time.

An exploratory study of personal interviews and discussions were held with two managers from AON Lesotho and Avis Lesotho as these individuals were believed to have required knowledge about their companies. No other interviews were conducted other than these two as some managers were not prepared to answer interview questions. The interview was structured and included some open-ended questions (Appendix E). Only interviews with managers were conducted as ordinary staff members were not allowed to answer interview questions from the public especially researchers. This made the whole process more difficult as managers were busy during that time of the year and appointments with them had to be rescheduled more often. However, interviews that took place were fruitful because respondents had a thorough knowledge about their company's activities and as a result were able to give general views concerning the topic in hand. The same questions were used in these interviews although the surveyed companies were from different industrial sectors, namely the financial (insurance) and transport. These questions were as follows:

1) What is the name of your company?

This question was asked in order to know the name of the company that the interviewee was working for. This was just for background and general statistical purposes.

a) Give a brief background to your company.

The respondent was asked to give a brief background of his/her company to get a clear picture of what the company was all about in terms of its operations and associations in the country.

2) What led to the privatisation of your company?

This question was used to establish what led to the company being privatised. Why that particular company? Previously it was a SOE, but it has since been converted to a privatised company due to certain reasons that the researcher wanted to know.

a) Who initiated the whole privatisation idea?

The researcher wanted to know who suggested that the company be privatised based upon what circumstances. Was it the government, the company itself or the public that came up with this idea? Based on all of these, who actually were in the driving seats to ensure that privatisation programme was running smoothly.

b) How was the Government's involvement in the company previously?

Most SOEs were being run by the Government, so it was important for the researcher to know what interest the Government had in such enterprises before they could be privatised. Not only did the Government hold shares, but it was responsible for the day to day running activities of such enterprises.

3) What basically is the company specializing in?

This question goes hand in hand with the name and background of the company. The main reason for this question was to find out what the company is specializing in terms of what it is offering to the public. Companies operate under different industrial sectors with different objectives.

a) What is the company's target market?

Companies have different target markets depending on what they offer to customers or the public at large. The respondents had to specify their target markets and target groups to supplement what has already been discussed about what the company is specializing on.

b) Are there any competitors in this sector/industry? If yes how is the competition?

Companies operate in either healthy or poor competitive environments, so the researcher wanted to find out how competition was in the industries.

4) Is perhaps the company operating under the regulator?

The researcher asked this question to find out if the company was operating under the national regulator. Not all the companies in the country operate under the regulator especially those owned by the state. Besides, it is only lately that new regulators are being introduced.

a) Does the company enjoy a monopoly?

This question was posed to the interviewee to establish if the company was enjoying a monopoly in the industry. If the company was not faced with competition, then it was enjoying monopoly power.

5) Did privatisation of this company bring in any changes in terms of:

- ***a) Working environment/ conditions?***
- ***b) Good customer relations?***
- ***c) Improved productivity?***
- ***d) Increased profits? etc***

All these questions were asked to find out if privatisation of the company has indeed brought changes in terms of all the above mentioned factors particularly when compared to when it was still a SOE.

6) How was the company performing before being privatised?

This question was posed to find from the respondent (manager) how the company was performing prior to privatisation in terms of sales and profits and specifically towards meeting its targets.

7) In terms of ownership (shareholding structure), who holds how many shares?

The researcher intended to identify the company's shareholding structure in terms of who owned how many shares and what benefits were attached to those shares especially if there was more than one shareholder.

a) Will Basotho benefit by being sold shares in the long run?

Since the Government of Lesotho had promised to reserve a certain portion of shares from companies for the public, the researcher was interested in knowing if this would really benefit the nation especially in the long run if they invested in those companies by purchasing shares.

8) Is good "corporate governance" practiced within the company?

a) Are all important stakeholders represented?

For the company to practise good "corporate governance" all relevant stakeholders (management, shareholders and the board of directors) have to be represented in this system to be properly effective. The question was designed to establish if this system was being put into practice together with all its requirements and procedures.

9) Are the "financial statements" prepared by the company with accordance to International Accounting Standards (IAS) as required?

All companies in the country are expected to use International Accounting Standards to prepare their financial statements, hence it was important for the researcher to investigate if such companies comply by these standards.

a) Are both financial and non-financial information disclosed to the public? If not, why?

In this question, the researcher wanted to know if both financial and non-financial information were disclosed to the public. If not, what the reason was for not disclosing them. This was asked for it is believed it is necessary for the general public to have access to this sort of information in case they might be interested in making future investments.

b) What kind of information is made available to the public?

If companies did not disclose all this information (both financial and non-financial information), what kind of information was made available to the public based on what grounds.

10) Is there a possibility that one day, this company will be listed on a "stock exchange"? If yes, how soon?

The researcher wanted to find out if the company was in line to be listed on the stock exchange in the near future as most companies were not, due to the fact that there is no stock exchange in the country.

a) Why is the company not listed presently?

If the company was not listed, what the reason was for it for not being listed.

All these questions were posed to top management because it is responsible for the overall activities of the company such as controlling, long term planning, budgeting, decision making and both internal and external reporting of the business.

4.5 Responses

A total outcome of 61 responses (questionnaires) was collected from surveyed companies that consisted of 9 responses from Avis Lesotho, Standard Bank Lesotho (16), AON Lesotho (14) and Telecom Lesotho (22). Most organisations in Lesotho do not allow their employees to hold interviews or answer any questionnaires from outside the organisation even those meant for academic purposes. Perhaps the reason for this is that certain information might be used by competitors for their own benefits against such entities. There were companies that declined to be surveyed, they included Vodacom Lesotho, Lesotho Brewing Company (LBC) and Lesotho Flour Mills. The researcher had the opportunity of working for Vodacom Lesotho before conducting this study but was still denied the opportunity of fulfilling this task by management, the reason being the parent company Vodacom, based in South Africa has issued a memorandum to this subsidiary not to disclose information of any nature to academics or researchers. Instead the researcher was referred to the regulator LTA for information pertaining to it which the latter made it clear that the information they have at their disposal is not for academic purposes but for regulatory purposes.

Similarly, both LBC and LFM made it clear that such surveys were not entertained at all. On the contrary, companies that were very co-operative such as Standard Bank Lesotho, Telecom Lesotho, AON Lesotho and Avis Lesotho were surveyed through self administered questionnaires. The latter two were surveyed through both self administered questionnaires and open-ended interviews. These interviews were conducted with a Human Resources manager and a Finance/Administration Director of Avis Lesotho and AON Lesotho respectively. These interviews proved fruitful and very informative. It was not an easy job as most managers were either busy or in meetings. As a result, they rescheduled appointments frequently because of these back-to-back meetings to accommodate the researcher. Nevertheless, they were very cooperative and helpful. As for Lesotho Electricity Corporation it was only discovered during the interview that the company was not yet privatised even though the public is under the impression that it has long been privatised. It is operating under new management while negotiations with concerned parties are still underway. Furthermore, Lesotho Airways Corporation and Maluti Highlands Abattoir do not exist anymore after being considered technically insolvent. They have closed down their operations due to amongst other reasons bad management, failure to repay their debts, not competitive enough and obviously not achieving desired results.

4.6 Limitations

Studies are normally conducted with constraints and possible limitations. This study is no exception. During the process of data collection, the following difficulties were encountered:

- Some companies do not allow their employees to be interviewed and respond to questionnaires. This made it difficult to collect data needed for this study.
- Almost all companies in Lesotho do not disclose their financial statements to the public let alone researchers which make it even more difficult to make a comparison in terms of years, industrial sectors and companies themselves, which clearly is a major aspect of this study.
- The fact that there is no national Stock Exchange in Lesotho made it impossible to access important information about companies that could contribute a lot to this study. However, this has been considered by those responsible and it is likely that by end of this current year the country will have its own Stock Exchange.
- Some entities have already been closed down without operating for long after privatisation. In such cases it was not easy to establish what led to their downfalls which would have been important to this study. The personnel for these entities could not be traced.
- The study ended up taking longer time than originally scheduled due to several postponements of appointments by managers because they were often busy or in meetings.
- Companies' websites do not have relevant information to this study such as Annual Reports, Financial Statements, Management and Discussion Analysis (M&DA), Directors' Reports etc. Not much valuable information is given about these entities on their various websites.
- SOEs that have been privatised are not many as were originally anticipated simply because some of them have not yet been privatised, while others have already gone bankrupt.

4.7 Data Analysis Methods

The raw data produced from the questionnaires were processed to extract a meaning. After the surveys were completed the responses were coded. The data was thoroughly checked, edited and then captured onto *SPSS version 11.5 for windows* for analysis. Statistical analysis involves the summation of data in order to describe and interpret the data (Ismail, 2003). Thereafter, the researcher was able to generalize and make inferences. The data that were collected via interviews from the respondents were edited and polished where necessary, without changing any answers at all, but just to make them meaningful. The sample of 61 respondents was achieved using a non- probability sampling method. Using the convenience sampling technique, the questionnaires were distributed amongst the selected sample at AON Lesotho, Telecom Lesotho, Standard Bank Lesotho and Avis Lesotho. The analysis on questionnaires was done through descriptive statistics. The next sections presents statistical techniques used to analyse data obtained from respondents in an attempt to answer the research question.

4.8 Descriptive Statistics

Descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures. Descriptive statistics are numbers that summarise the patterns of scores observed on a measured variable. This pattern is called the distribution of the variable. Most basically the distribution can be described in terms of its central tendency (i.e. the point in the distribution around which the data are centred) and its dispersion, or spread. The data analysis techniques that are employed under descriptive statistics are frequency distributions, central tendency, dispersion and cross-tabulations.

4.8.1 Frequency Distributions

A frequency distribution is a table that indicates how many, and in most cases what percentage, of the individuals in the sample fall into each of a set of categories. Simple frequency distributions have been performed to see how the sample is divided along biographical lines and the responses obtained from the selected sample in respect to the objectives of this current study. These frequency distributions have been diagrammatically depicted using tables. A frequency table is a simple device for arraying data from lowest to highest value, with columns for percent, percent adjusted for missing values and cumulative percent (Cooper and Schindler, 2001).

4.8.2 Central Tendency

The central tendency of a distribution is an estimate of the "centre" of a distribution of values. It is a measure of location, most commonly the mean, median and mode. The mean is the arithmetic average, median is the midpoint of a distribution of data and mode is the more frequently occurring value in an array of data.

4.8.3 Dispersion

Dispersion refers to the spread of the values around the central tendency. There are two common measures of dispersion, the range and the standard deviation. The range is simply the highest value minus the lowest value. The standard deviation is a more accurate and detailed estimate of dispersion because an outlier can greatly exaggerate the range, hence it is a more frequently measure of spread or variability of a data dispersion.

4.8.4 Cross-Tabulations

Cross tabulation analysis, also known as contingency table analysis is most often used to analyse categorical (nominal measurement scale) data. A cross-tabulation is a two (or more) dimensional table that records the number (frequency) of respondents that have the specific characteristics described in the cells of the table. Cross-tabulation tables provide a wealth of information about the relationship between the variables.

The presentation and discussion of results are discussed thoroughly in the next chapter. All the results were obtained using the above-mentioned data analysis techniques.

4.9 Summary

This chapter has dealt with research design and methodology used, the sampling size, the administration of the research (data collection) instrument, the response rate and the limitations of this research. The sampling design chosen was convenience sampling because it was considered appropriate for this research. Primary data was collected using survey techniques, namely a self-administered questionnaire and personal interviews. The advantages and disadvantages of using these methods were considered. The self-administered questionnaire was chosen on the basis that it is cheaper compared to other methods, while the personal interviewing was chosen as it covers more depth of information. The questions that were used during these surveys have been discussed thoroughly. A brief analysis on the status of the response rate with regard to survey techniques used was presented. Issues such as limitations to the study and problems related to the response rate have also been discussed. Finally, the data analysis method that was used to analyse raw data has been mentioned namely descriptive statistics technique.

The following chapter focuses on the analysis, presentation and discussion of findings.

CHAPTER FIVE

DATA ANALYSIS AND PRESENTATION OF RESULTS

5.1 Introduction

This chapter provides the data analysis of the responses of sixty three (63) respondents under the survey method together with the presentation of the research findings. The first section of this chapter presents a discussion of the questionnaire results which are presented in the form of tables. In the second section, the results of interviews are discussed fully and the last section presents a combined discussion of the research findings. Generally, the chapter is concerned with the analysis of the data from the respondents and the discussion of the wholesale findings of this study.

5.2 Presentation of Research Findings

As indicated in the previous chapter, the questionnaire was distributed amongst the selected sample at AON Lesotho, Standard Bank Lesotho, Telecom Lesotho and Avis Lesotho. The analysis on the questionnaires was done through descriptive statistics. The next section presents the discussion of research findings under the statistical techniques that were used to analyse data obtained from respondents in an attempt to answer the research question.

5.2.1 Demographic Details of Respondents

Section A of the questionnaire (Appendix D) was used to collect primary data from respondents about their gender, age, educational level, current position, general areas of work, industrial sector, length of service and current position. The results in table 5-1 show how these demographic variables were represented by the selected sample. According to table 5-1, there were more females (54.1%) who answered the questionnaires than males (45.9%). There were twenty respondents who were less than 30 years of age, twenty seven respondents fell into the 31 – 40 age group category,

Table 5-1: Demographic Outline of the Respondents

DEMOGRAPHIC VARIABLE	FREQUENCY	PERCENTAGE
GENDER:		
1. Male	**28**	45.9
2. Female	33	54.1
CURRENT AGE:		
1. Less than 30 years	**20**	32.8
2. Between 31-40 years	**27**	44.3
3. Between 41-50 years	**11**	18.0
4. More than 50 years	3	4.9
EDUCATIONAL LEVEL:		
1. Postgraduate	**25**	41.0
2. Undergraduate	**16**	26.2
3. High School Education	**9**	14.8
4. Other	11	18.0
AREA OF WORK:		
1. Administration	**22**	36.1
2. Finance/Accounting	**13**	21.3
3. Customer Services	**7**	11.5
4. Marketing	**8**	13.1
5. IT/Engineering	**9**	14.8
6. Other	**2**	3.3
INDUSTRIAL SECTOR:		
1. Communications	**21**	34.4
2. Transport	**11**	18.0
3. Financial	**29**	47.5
LENGTH OF SERVICE:		
1. Less than 5 years	**34**	55.7
2. Between 6-10 years	**9**	14.8
3. Between 11-15 years	12	19.7
4. More than 15 years	6	9.8
CURRENT POSITION:		
1. Manager	12	19.7
2. Employee (permanent)	42	68.9
3. Casual Employee	**0**	0.0
4. Other	7	11.4

eleven respondents into the 41 – 50 age group category and only three respondents were more than 50 years old. Twenty five respondents (41.0%) had postgraduate qualifications, followed by sixteen respondents (26.2%) with undergraduate qualifications and nine respondents (14.8%) had high school education. The remaining eleven respondents (18.0%) consisted of five respondents (8.2%) with primary school education, four respondents (6.6%) with college qualifications and two respondents (3.2%) with extra-mural qualifications. The administration departments in all the entities dominated in terms of the number of respondents (36.1%) who actually completed the questionnaires. The next department with the most respondents was the finance/accounting department with thirteen respondents (21.3%), then followed closely by customer services, marketing and IT/engineering with seven (11.5%), eight (13.1%) and nine (14.8%) respondents respectively. Other departments contributed only two respondents (3.3%) within various companies.

Table 5-1 indicates that the most common industrial sector in which these enterprises were operating was the financial sector. The fact that banking and insurance were classified under this sector made it very popular. However, there were other sectors like communications and transport that were represented as well. Thirty four respondents (55.7%) had worked for their companies for a period of 'less than 5 years,' nine respondents (14.8%) had between 6 years and a decade of work experience and those with more than a decade totaled eighteen respondents (29.5%). Most companies had to re-hire new employees after being privatised hence most respondents fell under the period of 'less than 5 years' length of service category. Twelve respondents (19.7%) held management positions (including four executives) while others were just ordinary staff members (68.9%). There were no casual employees as all the staff was employed on permanent basis. The other seven respondents (11.4%) represented five security officers and two drivers.

While frequencies show the numbers of cases in each level of a categorical variable, they do not give information about the relationship between categorical variables. Cross-tabulations are statistical reports that group data by one field, creating one column for each distinct value of another field.

Table 5-2: Gender (Sex) * Current Age Cross-Tabulation

			Current Age				Total
			Less than 30 years	Between 31-40 years	Between 41-50 years	More than 50 years	
Gender (Sex)	Male	Count	11	13	3	1	**28**
		% within Gender (Sex)	39.3%	46.4%	10.7%	3.6%	**100.0%**
	Female	Count	9	14	8	2	**33**
		% within Gender (Sex)	27.3%	42.4%	24.2%	6.1%	**100.0%**
Total		Count	20	27	11	3	**61**
		% within Gender (Sex)	32.8%	44.3%	18.0%	4.9%	**100.0%**

Table 5-2 shows that a total of twenty four females (72.7%) were at least over 30 years of age, as compared to seventeen of their males' counterparts (60.7%) in that age category. This is important in this study in the sense that these females are more matured and have required experience to know much about their companies. In twenty respondents that were less than 30 years old, eleven (39.3%) were males while nine (27.3%) were females. Both these genders are new to the environment and are still no familiar with certain aspects of their companies.

Table 5-3: Gender (Sex) * General Area of Work Cross-Tabulation

			General Area of Work					Total
			Admin	Finance/ Accounting	Marketing	Customer Services	IT/Engin eering	
Gender (Sex)	Male	Count	9	5	4	3	5	**26**
		% within Gender (Sex)	34.6%	19.2%	15.4%	11.5%	19.2%	**100.0%**
	Female	Count	13	8	3	5	4	**33**
		% within Gender (Sex)	39.4%	24.2%	9.1%	15.2%	12.1%	**100.0%**
Total		Count	22	13	7	8	9	**59**
		% within Gender (Sex)	37.3%	22.0%	11.9%	13.6%	15.3%	**100.0%**

Table 5-3 indicates that females dominated in the administration (39.4%), finance/accounting (24.2%) and customer services (15.2%) departments in terms of the majority number of individuals working in those departments as compared to males with 34.6%, 19.2% and 11.5% respectively. However, in the marketing and IT/Engineering departments, the total number of males was nine (34.6%) as opposed to seven (21.2%) females. Two more males were drivers who did not fall under any of the above mentioned departments. Generally, the females were mainly employed in general areas of work such as administration, finance /accounting and customer services whereas the male respondents were mainly employed in more specialised areas of work such as marketing and IT/Engineering. This being the case explains that females are in a position to have more knowledge about matters that involve the study in hand as opposed to males who are more in the technical side of things.

Table 5-4: Gender (Sex) * Length of Service Cross-Tabulation

			Length of Service				Total
			Less than 5 years	Between 6-10 years	Between 11-15 years	More than 15 years	
Gender (Sex)	Male	Count	18	4	5	1	**28**
		% within Gender (Sex)	64.3%	14.3%	17.9%	3.6%	**100.0%**
	Female	Count	16	5	7	5	**33**
		% within Gender (Sex)	48.5%	15.2%	21.2%	15.2%	**100.0%**
Total		Count	34	9	12	6	**61**
		% within Gender (Sex)	55.7%	14.8%	19.7%	9.8%	**100.0%**

Table 5-4 shows that eighteen males (64.3%) had worked for a period of 'less than 5 years' in their entities as opposed to sixteen females (48.5%) during the same period. The other categories namely 'between 6-10 years', 'between 11-15 years' and 'more than 15 years' were dominated by female respondents with 15.2%, 21.2% and 15.2% against 14.3%, 17.9% and 3.6% for males respectively. This also indicates that females have worked longer than their male counterparts, as result were in a better position to have full knowledge about the impact that privatisation had on their companies.

Although cross-tabulations were conducted to determine the relationships between all the demographic variables, cross-tabulations which showed insignificant relationships were omitted.

5.2.2 Responses to the Objectives of Privatisation

Section B of the questionnaire measured how the respondents ranked their choices about the listed objectives of privatisation. They made their choices using the Likert Scale (1 = **Not at all**, 2 = **Inadequately**, 3 = **Uncertain**, 4 = **Satisfactorily** or 5 = **Very well**). Respondents were asked if privatisation of their entities had fulfilled or met these objectives. Table 5-5 shows the response categories and frequencies on each question asked.

Table 5-5: The Objectives of Privatisation

Has Privatisation:	**Not at All**	**Inadequately**	**Uncertain / Missing**	**Satisfactorily**	**Very Well**
Increased productivity?	8	6	7	32	8
Improved net operating profits?	15	-	9	14	23
Increased competition in the market?	3	5	10	10	33
Attracted foreign capital and expertise?	13	28	2	-	18
Improved service levels and job creation?	14	-	7	14	26
Increased efficiency at enterprise level?	7	14	21	12	7
Reduced government borrowing?	3	-	9	34	15
Broadened public interest through purchase of shares?	1	4	25	21	10
Increased share interest in enterprise ownership?	-	-	12	24	25
Increased presentation and disclosure of both financial and non-financial information to the public?	16	-	4	-	41
Improved level of financial reporting?	6	-	17	-	38
Enhanced compliance with national accounting standards or IAS?	2	2	17	7	33
Helped entity to abide by rules and regulations?	1	-	5	17	38
Total = 61					

Table 5-5 shows that a total of forty respondents (65.6%) were satisfied with the fact that privatisation had increased the level of productivity in their entities. However, eight respondents (13.1%) claimed it had not increased productivity at all, six respondents (9.8%) claimed it had done so inadequately while seven respondents (11.5%) were uncertain probably because they could not see any changes with regard to production levels. Under normal circumstances, when productivity of a company rises, sales and profits are likely to increase as well. The table shows that thirty seven respondents (60.7%) confirmed that net operating profits had improved after privatisation whereas fifteen respondents (24.6%) completely denied this situation and nine of them were uncertain about it. Thirty three respondents (54.1%) agreed that competition in different industries had increased very well. Ten respondents (16.4%) were satisfied about this, another ten (16.4%) were unsure while a total of eight (13.1%) thought competition did not increase after privatisation.

Table 5-5 indicates that forty one respondents (67.2%) thought that privatisation had not or inadequately attracted foreign capital and expertise. However, eighteen respondents (29.5%) felt otherwise as they thought privatisation had pulled in investments and skills from abroad. Twenty six respondents (42.6%) fully agreed that privatisation had improved service levels and created new jobs in their companies very well, while fourteen respondents (23.0%) in each respective category thought not at all and satisfactorily. Privatisation is adopted because it is believed that it increases efficiency at enterprise level as opposed to public sectors (World Bank, 2000). Twenty one respondents (34.4%) remained neutral or uncertain about this issue, perhaps they witnessed no changes or were unclear about it. Twenty one (52.5%) of the remaining forty (65.6%) respondents thought the level of efficiency had not improved sufficiently or not at all, while only nineteen respondents (47.5%) believed privatisation had fulfilled this satisfactorily or very well.

Table 5-5 shows that forty nine respondents (80.3%) in the sample were satisfied that privatisation had raised funds and reduced government borrowing. Only a small portion of respondents (4.9%) denied this while others (14.8%) were unsure. Twenty five respondents (41.0%) thought privatisation had increased the share interest in their different enterprises very well, twenty four respondents (39.3%) were satisfied while twelve respondents (19.7%) were not sure. There were no objections from the respondents on this objective of privatisation. The subsequent question about privatisation broadening the public interest in share ownership differed with this point, as responses varied. Twenty one respondents were satisfied that privatisation broadened the public interest in share ownership, ten respondents rated it 'very well' while twenty five were unsure. Only five respondents thought the opposite.

Companies are required to comply with national accounting standards when preparing their financial statements. The results indicate that thirty three respondents (54.1%) confirmed that compliance with national accounting standards or International Accounting Standards is enhanced by privatisation. Seven respondents (11.5%) were satisfied that compliance is enhanced while seventeen respondents (27.9%) could not confirm or deny this as they were uncertain. A sum of four respondents thought that there were no changes with regard to compliance with accounting standards from surveyed companies. The table shows that thirty eight respondents (62.3%) claimed that the privatisation had improved the level of financial reporting. Seventeen respondents (27.9%) were not sure about this objective, while six respondents (9.8%) thought the level of financial reporting had not at all improved.

Interestingly, fifty five respondents (90.2%) thought that privatisation had helped the entities to abide by the rules and regulations of concerned regulators. Only five respondents were not sure while one respondent denied this. Although forty one respondents (67.2%) felt that privatisation had increased the level of presentation and disclosure of both financial and non-financial information, the public at large still find it hard to access such information. It could be that since employees are within the companies, it is a little easier for them to lay hands on this kind of information. Nevertheless, sixteen respondents (26.2%) thought the opposite as they claimed there had not been any changes. The major problem is most companies in Lesotho are not public companies and therefore do not publish their financial statements to the general public.

In summary, privatisation had increased productivity resulting to improved profits and additional funds. However, competition had also increased in the marketplaces thereby eliminating monopoly for some entities. Despite the low attraction of foreign capital and expertise, there had been improved service levels and job creations, and the decrease in government borrowings. The objective about the improved operating efficiency in the enterprises produced mixed responses. The public has become interested in owning shares in certain companies, while the level of financial reporting and compliance with accounting standards has been enhanced although some respondents were still uncertain about these scenarios. Most entities abide by the rules and regulations and as a result they present relevant information to the stakeholders.

Table 5-6: The Ranking of Respondents' Opinions about the Most to the Least Beneficial Aspects of Privatisation

Order of Importance	Original Order	*Has Privatisation:*	Valid	Missing/ Uncertain	Mean
1	12	Helped entity to abide by rules and regulations?	56	5	**4.49**
2	8	Increased share interest in enterprise ownership?	49	12	**4.21**
3	10	Enhanced compliance with national accounting standards or IAS?	44	17	**4.10**
4	3	Increased competition in the market?	51	10	**4.07**
5	11	Improved level of financial reporting?	44	17	**4.05**
6	7	Reduced government borrowing?	52	9	**3.95**
7	13	Increased presentation and disclosure of both financial and non-financial information to the public?	57	4	**3.82**
8	5	Improved service levels and job creation?	54	7	**3.62**
9	9	Broadened public interest through purchase of shares?	36	25	**3.57**
10	2	Improved net operating profits?	52	9	**3.44**
11	1	Increased productivity?	54	7	**3.43**
12	6	Increased efficiency at enterprise level?	40	21	**2.97**
13	4	Attracted foreign capital and expertise?	59	2	**2.70**

In table 5-6, the ranking reflects the most to the least beneficial aspects of privatisation as per the respondents' views. The *means* tell which objectives they feel most or least positive (favourable) about with regard to the study. It is clearly evident that the respondents rated the objective that 'privatisation had enormously helped different entities to abide by the rules and regulations of the governors' high as it came on top. The descriptive statistics reveal the mean of 4.49 (i.e. satisfactorily). This was followed by the increased share interest in enterprise ownership with a mean of 4.21. Seemingly, the objectives that entail legislation and accounting prevailed in terms of what respondents thought were the most helpful aspect of privatisation. For instance, according to the respondents, privatisation had encouraged compliance with either national accounting standards or IAS, had improved the level of financial reporting, then increased presentation and disclosure of both financial and non-financial information to the public and last but not least broadened public interest through the purchase of shares. From the table, the *means* for these objectives are all slightly below 4.00, with the exception of the first two that are 4.10 and 4.05 respectively.

The objective of the introduction of competition in the market place was rated high (fourth on the table) by the respondents with the mean of 4.07. The objective that privatisation had reduced government borrowing followed closely with the mean of 3.95 (i.e. satisfactorily). However, the beliefs that privatisation increases productivity and operating efficiency, attracts foreign capital, improves service levels and creates jobs, all scored means of just more than 3. In this case, the descriptive statistics disclose that all *means* of 3 could simply reflect uncertainty therefore no conclusion is possible, while those below it indicate least favourable features of privatisation.

5.2.3 Responses to the Effects of Privatisation on Company Stakeholders

In section C of the questionnaire, the respondents were requested to give their opinions with regard to the possible effects of privatisation on company stakeholders. Again a five-point Likert Scale was used where the respondent had to make choices from strongly disagree to strongly agree. The results of their responses are shown in Table 5-7. This

Table 5-7: The Effects of Privatisation on Company Stakeholders

	Strongly Disagree	Disagree	Uncertain / Missing	Agree	Strongly Agree
Privatisation has a positive impact on an entity's performance	-	8	-	23	30
More opportunities are created in private entities (PE)	-	9	5	28	19
Employees are satisfied with new working conditions in PE	8	14	8	15	16
Increased salaries/wages are guaranteed in PE	8	7	8	23	15
Increased workloads are experienced in PE	-	-	13	16	32
There are fears of job losses / demotions / retrenchments in PE	-	-	10	5	46
There are changes in bosses, colleagues and subordinates in PE	-	-	2	22	37
There are changes in regulations, rules and procedures in PE	-	9	2	31	19
There is an improved individual performance in PE	5	11	-	13	32
PE are better equipped to cope with globalisation	6	10	-	8	37
Extra capital is contributed in PE	-	-	7	29	25
Total = 61					

table shows that fifty three respondents (86.9%) agreed that privatisation had a positive impact on the entity's performance, of which thirty respondents (49.2%) strongly agreed. On the other hand eight respondents (13.1%) disagreed with this statement. The table indicates that forty seven respondents (77.0%) agreed that with privatisation in place, more opportunities are created. However, nine respondents disagreed and five respondents did not answer this question. The response rate for the opinion that employees were satisfied with new working conditions after privatisation varied. Thirty respondents (36.1%) disagreed. Eight respondents (13.1%) remained neutral. The table indicates that thirty eight respondents (62.3%) agreed that increased salaries/wages were guaranteed in privatised entities. On the contrary, eight and seven respondents strongly disagreed and disagreed on this point respectively. Another eight respondents were not sure.

According to table 5-7, forty eight respondents (78.7 %) agreed that privatisation came with increased workloads. Interestingly, there were no respondents who denied this and thirteen could not confirm this statement. This is a major problem for privatisation as most workers often complain about having more responsibilities as opposed to when previously in the public sector. Similarly, fifty one respondents (83.6%) confirmed that privatisation was associated with the fear of job losses, retrenchments and demotions of workers. Ten respondents (16.4%) were uncertain about this point, though this is also considered to be one of the major disadvantages of privatisation in the global world. The table indicates that fifty nine respondents (96.7%) agreed there were changes in personnel where privatisation was involved. The interesting part is that no respondents disagreed with these changes. In addition, fifty respondents (82.0%) claimed that there were changes in regulations, rules and procedures in privatised entities as compared to SOEs, while nine respondents (14.8%) disagreed. In most cases, new management makes changes in terms of rules and regulations governing the entity.

All the respondents gave their views on whether privatisation had improved individual performances in their entities. Thirty two respondents (52.5%) strongly agreed with this, thirteen respondents (21.3%) agreed, five respondents (8.2%) strongly disagreed and eleven respondents (18.0%) disagreed that individual performance had improved. From the table, it can be seen that forty five respondents (73.8%) agreed that privatised entities were better equipped to cope with changes and new developments that were related to globalisation. Six and ten respondents thought the opposite as they strongly disagreed and disagreed respectively. Because privatisation normally comes with foreign expertise, entities are likely to be exposed to how things are done in the global world. But according to some respondents, it does not necessarily mean privatised entities stand a good chance of coping in the global arena. There were no disagreements from the sample that privatisation created extra capital from the investors. In actual fact, fifty four (88.5%)

respondents fully agreed that more capital was contributed by new owners for privatised companies. The remaining seven were uncertain about their views.

In summary, a large percentage of respondents thought that privatisation had some positive impacts on an entity's performances and had also improved individual performances. In addition, they believed more opportunities were created and there had been extra contributions of capital. Despite these positive effects, there had been increased workloads, job losses and retrenchments, and changes in the personnel, rules and regulations within many entities. In opposition to what was expected, not many employees were satisfied with their new working conditions and some felt that it was not the case that increased salaries or wages were guaranteed in their organisations.

This next section discusses the relationships between the categorical variables (**gender, current positions** and the **effects of privatisation on stakeholders**) using the cross-tabulation statistical technique. Not all cross tabulations are presented as many did not reveal relationships amongst variables that are considered meaningful for this study.

Table 5-8: Gender (Sex) * Employees are satisfied with new working conditions Cross-tabulation

			Employees are satisfied with new working conditions				Total
			Strongly Disagree	Disagree	Agree	Strongly Agree	
Gender (Sex)	**Male**	Count	3	5	9	8	**25**
		% within Gender (Sex)	12.0%	20.0%	36.0%	32.0%	**100.0%**
	Female	Count	5	9	6	8	**28**
		% within Gender (Sex)	17.9%	32.1%	21.4%	28.6%	**100.0%**
Total		Count	8	14	15	16	**53**
		% within Gender (Sex)	15.1%	26.4%	28.3%	30.2%	**100.0%**

Table 5-8 indicates that seventeen male respondents (68.0%) agreed that employees were satisfied with new working conditions after privatisation as opposed to fourteen female respondents (50.0%). Fourteen females disagreed with this statement with only eight males also disagreeing. It would be fair to conclude that most males felt more satisfied with the new changes in their working environments while females had mixed feelings.

Table 5-9: Gender (Sex) * Increased salaries/wages guaranteed Cross-tabulation

			Increased salaries/wages are guaranteed				Total
			Strongly Disagree	Disagree	Agree	Strongly Agree	
Gender (Sex)	Male	Count	5	4	8	7	**24**
		% within Gender (Sex)	20.8%	16.7%	33.3%	29.2%	**100.0%**
	Female	Count	3	3	15	8	**29**
		% within Gender (Sex)	10.3%	10.3%	51.7%	27.6%	**100.0%**
Total		Count	8	7	23	15	**53**
		% within Gender (Sex)	15.1%	13.2%	43.4%	28.3%	**100.0%**

Table 5-9 shows that the majority of both genders felt that increased salaries/wages were guaranteed in privatised entities. Fifteen male respondents (62.5%) and twenty three female respondents (79.3%) agreed, while nine male respondents (37.5%) and six female respondents (20.7%) were against the view that there were increased salaries/wages. Generally, it was perceived that there were improvements in remuneration in private entities as opposed to SOEs.

Table 5-10: Gender (Sex) * Improved individual performance Cross-tabulation

			Improved individual performance				Total
			Strongly Disagree	Disagree	Agree	Strongly Agree	
Gender (Sex)	Male	Count	3	6	7	12	**28**
		% within Gender (Sex)	10.7%	21.4%	25.0%	42.9%	**100.0%**
	Female	Count	2	5	6	20	**33**
		% within Gender (Sex)	6.1%	15.2%	18.2%	60.6%	**100.0%**
Total		Count	5	11	13	32	**61**
		% within Gender (Sex)	8.2%	18.0%	21.3%	52.5%	**100.0%**

From the above table, it can be seen that there were improvements in individual performances as per the views of both genders. Nineteen males (67.9%) and twenty six females (78.8%) confirmed that their performances had improved after privatisation, while seven females (21.3%) and nine males (32.1%) disagreed with this viewpoint.

Table 5-11: Current Position occupied * Increased workloads are experienced Cross-tabulation

			Increased workloads are experienced		Total
			Agree	Strongly Agree	
Current Position occupied	Manager	Count	6	6	12
		% within Current Position occupied	50.0%	50.0%	100.0%
	Employee (Permanent)	Count	12	28	40
		% within Current Position occupied	30.0%	70.0%	100.0%
Total		Count	18	34	52
		% within Current Position occupied	34.6%	65.4%	100.0%

Table 5-11 shows that none of the respondents disagreed with the fact that there were increased workloads in their enterprises after privatisation. All the twelve managers and forty ordinary employees agreed that they experienced more workloads. In their own opinions, they claimed that this was caused by the fact that they were no longer overstaffed instead their responsibilities and duties had increased.

Table 5-12: Current Position occupied * Fears of job losses/demotions/retrenchments Cross-tabulation

			Fears of job losses/demotions/retrenchments		Total
			Agree	Strongly Agree	
Current Position occupied	Manager	Count	3	9	12
		% within Current Position occupied	33.3%	66.7%	100.0%
	Employee (Permanent)	Count	4	39	43
		% within Current Position occupied	9.3%	90.7%	100.0%
Total		Count	7	48	55
		% within Current Position occupied	12.7%	87.3%	100.0%

Similarly, table 5-12 indicates that both types of respondents confirmed that privatisation came with fears of job losses, retrenchments and demotions. No respondents disagreed with this effect. In fact, nine managers and thirty nine employees strongly emphasized this point while three managers and four employees agreed. This is regarded as a major setback for privatisation in the whole world. Mashologu (1999) explains that in most cases employees are retrenched and they worry seriously about the possibility of losing their jobs.

Table 5-13: Current Position occupied * Changes in bosses, colleagues and subordinates Cross tabulation

			Changes in bosses, colleagues and subordinates		Total
			Agree	Strongly Agree	
Current Position occupied	**Manager**	Count	3	4	**7**
		% within Current Position occupied	42.9%	57.1%	**100.0%**
	Employee (Permanent)	Count	19	33	**52**
		% within Current Position occupied	36.5%	63.5%	**100.0%**
Total		Count	22	37	**59**
		% within Current Position occupied	37.3%	62.7%	**100.0%**

Likewise, table 5-13 shows that according to the respondents there were changes in the bosses, colleagues and subordinates in the privatised entities. Two respondents were unsure about this point of view, as all others agreed that changes occurred within the staff in all the departmental levels. None of the respondents disagreed with this issue. It is no surprise as privatisation is perceived to involve both internal and external changes.

In summary, there are various relationships amongst gender, current position and the effects of privatisation on stakeholders. Both the male and female respondents had mixed feelings about their new working environments, the objectives that increased salaries/wages were guaranteed in their enterprises and that there had been improved individual performances. All the respondents irrespective of managers or ordinary employees agreed that there were increased workloads, fears of job losses or retrenchments and changes of personnel in their entities. There were no disagreements from the respondents on these issues, although there were still some uncertainties.

5.3 Results of the Interviews

This next section discusses the results and responses obtained from the respondents through the interview survey method. The interviews were held with the Finance and Administration Director of AON Lesotho (Pty) Ltd and the Manager of Avis Lesotho as they were believed to have the required knowledge about their companies. The same questions were used in both interviews (Appendix E) although these companies are in different sectors (insurance and transport). The questions posed to the respondents together with their answers (summarised and paraphrased) in separate interviews are shown below. The responses are written in blocks with AON Lesotho (Pty) Ltd first followed by Avis Lesotho.

1) What is the name of your company?

- The name of our company is **AON Lesotho (Pty) Ltd**. AON is a Gaelic word meaning "Oneness" or "Unity". The name clearly reflects the vision for the company and the unity that they share in their common culture of providing professional service to their clients. AON Lesotho is a subsidiary of AON Corporation worldwide – a family of risk consulting, insurance broking and employee benefits consulting companies; serving clients and policyholders, and through global distribution network (availability of international expertise).

- **Avis Lesotho** is the name of this company, a licensee of Avis Southern Africa headquartered in South Africa.

a) Give a brief background to your company.

- The company "AON Lesotho (Pty) Ltd" came into operation in February 2002, after negotiations were held between the Government of Lesotho and AON Risk Services UK whereby the latter proposed a take-over shareholding of the former Lesotho Bank in Minet Kingsway (Pty) Ltd, an insurance brokerage business. AON Risk Services UK succeeded in acquiring a total 95% shareholding, leaving the Government of Lesotho with 5% which was to be transferred to the Lesotho Unit Trust for *Basotho* investor participation.

- Avis worldwide was founded in 1946 by Warren Avis (who sold his interest in 1954). Avis was the first company to rent cars from airport locations. The company grew rapidly during the 1950's through franchised and corporate-owned expansion. Avis Lesotho is one of the licensees of Avis Rent-A-Car Company that operates the world's second largest general-use car rental business providing business and leisure customers with a wide range of services in countries all over the world.

2) What lead to the privatisation of your company?

- Apparently, the Government of Lesotho had decided to divest its majority interest in Minet Kingsway (Pty) Ltd, hence AON Risk Services UK came up with a take-over proposal. It was a global decision for all Minet Kingsway companies to be wholly acquired by AON International Holdings. This did not only happen in Lesotho but worldwide. But of course, the major business being in Africa hence Lesotho was involved.

- The company got privatised because it was performing poorly and therefore was approaching closure. In short, it was not performing to expectations. Initially the company was under the Lesotho Bank (direct owner) which also was not doing well business wise.

a) Who initiated the whole privatisation idea?

- In February 2002, negotiations were held between the Government of Lesotho and AON Risk Services UK whereby the latter proposed a take-over of the former Lesotho Bank in Minet Kingsway (Pty) Ltd. The GOL had earlier decided to divest its majority interest in this insurance company; hence AON Risk Services UK came up with a proposal.

- Lesotho Bank (100% shareholder) initiated the privatisation of this company (Avis Lesotho) because it was not doing well financially, so the aim was to save it from going insolvent.

b) How was the Government's involvement in the company previously?

- The GOL had initially 65% majority shares. After privatisation (being acquired by AON Risk Services UK), the majority shares (95%) went to the latter and 5% was sold to Lesotho Unit Trust for *Basotho* investor participation.

- In a way, the GOL had a stake in the business because it held certain shares in Lesotho Bank which happened to be the sole owner. Back then the company used to perform well.

3) What basically is the company specializing in?

- Our vision is to be acknowledged to be the best financial services company in Lesotho; focusing on Risk Management, Insurance Broking and other Financial Services, Consulting and Distribution. Our business is to seek the unforeseen to enable business leaders to realise their vision, provide the highest quality professional advice and bring solutions to protect the tangible, intangible and human assets of companies, provide practical risk management to help clients manage their risks and human capital, help clients to improve productivity security, health and safety in compliance with "Best Practice" to enhance business sustainability and productivity and provide short term insurance broking services.

- Avis Lesotho deals with hiring/renting of cars on daily, weekly or monthly basis.

a) What is the company's target market?

- Our target market is *Basotho* in general, with much emphasis on commercial and corporate clients.

- Our target market is almost everyone, both locals and foreigners. At the Moshoeshoe I International Airport, we target foreigners visiting or who are on business in the country.

b) Are there any competitors in this sector/ industry, if yes how is the competition?

- There are about ten (10) competitors in the industry. There is stiff competition because obviously some customers (clients) prefer other competitors.

- There are competitors in the industry; Imperial Fleet Services and Budget Car Rental. The competition is bad because Imperial Fleet Services is the only car rental company that deals directly with the GOL; it is enjoying Government monopoly as other competitors are not entitled to Government deals, Avis Lesotho included.

4) Is perhaps the company operating under the regulator?

- The company is operating under the regulator which in this case is the Central Bank of Lesotho as the "Commissioner of Insurances". The company plays by the rules and regulations of the regulator. However, other competitors play unfair as they do not abide by the rules. Again the Central Bank of Lesotho as the regulator is not that effective or directive but is in the process of being beefed up.

- The company is operating under the national regulator.

a) Does the company enjoy monopoly?

- No, because there is competition in the industry from other insurance companies.

- No, Avis Lesotho does not enjoy monopoly as there are competitors. Only Imperial Fleet Services seems to enjoy monopoly simply because it is contracted to the Government.

5) Did privatisation of this company bring in any changes in terms of:

a) Working environment/ conditions?

b) Good customer relations?

c) Improved productivity?

d) Increased profits? etc.

- Privatisation has clearly improved AON Lesotho in terms of good customer relations, operations are standardised globally and there is only one AON in Lesotho.

- It is apparent that privatisation has brought in some changes as there were retrenchment of some employees, no increase in profits but fortunately improved working environments.

6) How was the company performing before being privatised?

- The company was still performing well even before privatisation. In fact it was performing better than currently. Then the economy was better compared to presently after the company was privatised. The drop in performance is not mainly due to poor performance but the current status of economy after experiencing political crisis in the late nineties. Obviously if things were the same as then, there would be an improvement in performance.

- The company was not performing well financially before privatisation, but compared to currently it is much better in terms of finances and operations.

7) In terms of ownership (shareholding structure), who holds how many shares?

- AON Risk Services UK currently owns 95% majority shares while the remaining 5% belongs to Lesotho Unit Trust on behalf of the nation.

- Presently, Avis Southern Africa holds 80% majority shares and the balance of 20% belongs to the GOL. For this 20% stake, the Government is still looking for a potential local buyer.

a) Will Basotho benefit by being sold shares in the long run?

- Through the Employee Share Ownership scheme, the objective is to extend the benefits of privatisation by affording the company's local employees the opportunity to become part-owners of the company. The other benefits include having a representation on the board of the company, earning additional income through dividends and promoting the continued growth of the company.

- The reason the Government always holds a certain percentage in shares is to prevent a foreign investor who in most cases is the majority shareholder to have maximum rights to do as he/she pleases. Hence, local investors are advised to buy shares.

8) Is good "corporate governance" practiced within the company?

- Corporate governance is indeed practiced within the company because the company originates from the first world. All AON companies worldwide follow this philosophy hence it is important for AON Lesotho to comply with it.

a) Are all important stakeholders represented?

- This is very true as the company believes in transparency.

The answers for the above question could not be obtained from Avis Lesotho because the researcher skipped the question by mistake and later follow ups were unfruitful.

9) ***Are the "financial statements" prepared by company in accordance to International Accounting Standards (IAS) as required?***

- The company complies with International Accounting Standards (IAS) fully. This can be confirmed by its auditors "Ernst and Young". Monthly, quarterly and annual reports are prepared in accordance with IAS even though they are not published to the public. The company wants to maintain its standards with regard to the global market (i.e. to be in line with companies associated with maintaining high global standards).

- The annual reports are prepared in accordance with the IAS, as the company is obliged to do so by the GOL and the accounting bodies within the country.

a) ***Are both financial and non-financial statements disclosed to the public? If not, why?***

- These statements are not published to the public because it is not a public company. The company is not interested in market capitalization but in public participation.

- The annual reports are sent to the Privatisation Unit for evaluation purposes. They are not published to the public.

10) ***Is there a possibility that one day, this company will be listed on a "stock exchange"? If yes, how soon?***

- The company will be listed on a "Stock Exchange" which is due to be launched this current year or early next year. The company is heading in that direction because it has already sold some shares to Lesotho Unit Trust.

- There is a possibility of Avis Lesotho to be listed on the stock exchange soon for it to grow globally.

a) Why is the company not listed presently?

- Because there is none currently that exists in the country. The company is interested to be listed on the stock exchange because it wants to increase participation through clients (but not to increase capital), and to conform to first world standards.

- The company is still small and not well established. Once it has grown, it will be listed to get exposure worldwide.

11) Do you have any other comments?

To identify areas and priorities of this research, the AON Lesotho (Pty) Ltd director was quick to mention the following conditions with respect to privatisation in general. He claimed that privatisation is not working in Lesotho due to the following cases:

- there are no guidelines pertaining to it,
- it is not improving the economy in Africa,
- managerial skills and information technology are from outside the country,
- does not emphasize local empowerment,
- brings in personnel from outside the country,
- does not have long term intention about the country and
- does not support local infrastructure (e.g. does not build roads, premises etc.).

To add to this, the manager of Avis Lesotho claimed privatisation increased workloads, promoted retrenchment of jobs and created uncertainty of job security. She concluded by specifying clearly that she would not recommend privatisation at all.

5.4 Discussion of the Research Findings

This section is concerned with the discussion of the findings of this study. These findings are discussed against the backdrop of the literature reviewed in chapters two and three, and the research objectives.

5.4.1 General Information about the Respondents

More females than males answered the questionnaires, most organisations had employees with the necessary qualifications to do their jobs and these employees were at least 25 years old although most of them did not have a period of more than 5 years working experience for such organisations. Most females who were in their thirties possessed more work experience than their male counterparts who were in their early years of work. One reason for the companies having employees with less experience is because they had to re-hire new employees with qualifications after being privatised as most former employees did not have the required qualifications and therefore were relieved of their duties. Most former employees were retrenched and never restored as companies reduced the numbers of working employees due to the belief that they were overstaffed. All the employees were hired on permanent basis, with the majority of them doing non-technical jobs in different industrial sectors. The administration and finance/accounting departments had mainly female respondents, while the financial sector contributed a larger number of respondents as compared to other industrial sectors.

5.4.2 Productivity, Profits and Operating Efficiency

This section presents the findings of questions 8, 9, 13, 21 and 29 on the questionnaire. The findings of the study suggest that the respondents perceive that privatisation has improved productivity in a satisfactory way. According to the survey, most respondents claimed that their organisations had experienced increased production levels after privatisation compared to prior to it. In Kocenda and Svejnar (2002)'s study, they concluded that privatisation is in general associated with better firm performance. It is also apparent that in the respondents' opinions and from the researcher's observations, certain entities experienced increased net operating profits as well. Previously, according to the respondents, the SOEs were managed by public servants who did not hold any responsibility for generating productivity and maximizing profits. Nowadays, this has changed as managers strive to achieve maximum profits to survive in the competitive environments. However, some respondents think it is not always the case that privatisation is associated with increased profits particularly when other companies still face the problem of running losses or even end up being insolvent.

With respect to an increased efficiency level at the enterprise level which is considered one of the main objectives of privatisation in economic terms, the results reveal that in the country like Lesotho, this is not necessarily the case. The respondents believe that the problem of inefficiency at enterprise level has not disappeared altogether. Instead companies need to rectify this before concentrating on external matters such as dealing with competition in the industry so as to survive in the long run, they must protect their images against the public and maintain their good reputation. The findings of the study proved that privatisation has improved individual performances, as the respondents positively confirmed this. Other empirical studies by LaPorta and Lopez-De-Silanes (1998) showed that after privatisation, increased productivity, profits and operating efficiency came top in their countries, which are opposite to what the respondents in this study thought as they rated them as the least beneficial aspects of privatisation. Initially when privatisation was implemented, many associated it with these positive objectives, but overlooked other factors such as rules and regulations, ownership structures, employee layoffs and competitions in the industries that all needed to be taken into consideration. Again a thorough research was not done with regard to establishing implications associated with privatisation in general.

5.4.3 Competition, Debts and Investments

Some of the principal reasons for privatisation are to create competition in the marketplace and to reduce public debts. In other words, competition is born where it was not there in the first place, probably to create a healthy but demanding environment. Indeed as per the respondents' views, there has been an introduction of competition where monopoly existed that was enjoyed mostly by the SOEs. For example, the idea to privatise Vodacom Lesotho by the GOL was to create competition in the cellular operator's market, leading to more rapid and efficient provision of cellular services. This sale was meant to enable the privatised Telecom Lesotho to obtain a licence from June 2001 to become the second cellular service provider in the country. Martin and Parker (1992) thought British Telecom performed beyond expectations after experiencing far greater competition from new entrants into the marketplace. Likewise, the majority of respondents felt their companies performed far better after being exposed to healthy competition after privatisation. But then again, in some instances the respondents thought competition was unfair as other organisations were having a competitive edge over others in terms of competing for clients.

On the other hand, the respondents felt that other entities were finding it hard to survive in the competitive environment. They also confirmed that the public sector debt has declined after privatisation. The objective was to do away with such debt which was putting the country in a vulnerable and at a weaker state. The respondents thought that fresh capital investment and technical expertise from abroad did not adequately improve the financial status of companies as was originally anticipated. Perhaps, the mentality that the respondents had about the locals that they are equally as good in running their own businesses played a part as they perceived foreigners to be surpluses. The state loan reductions and foreign investments were also rated low by respondents as the least important determining factor of privatisation. This could be due to the fact that the country is still indebted to wealthy countries and international orgranisations, while foreigner investors are reluctant to invest in a LDC that was once unstable.

Nevertheless, there are some international companies that have invested in the newly privatised companies in many ways such as buying stakes, providing technical support and/or granting funds. For example, Minet Kingsway was acquired by AON Risk Services UK, an international insurance brokerage company. Again, Avis Lesotho (formerly International Freight and Travel Services – Car Rental) was saved from going bankrupt as the majority shareholder was bought out by Avis Southern Africa. In most cases, new owners brought in skilled manpower and management expertise to foster operations. This however did not make other respondents happy as they believed that they had necessary experience and competence to fill management positions that were handed to foreigners.

5.4.4 Service Delivery, Opportunities and Working Conditions

According to the research findings, the majority of respondents thought privatised enterprises tend to offer better conditions for delivery of goods and services. This might be due to improved incentives to workers, huge demands from customers and firm competition from other organisations. In opposition to improved service delivery, some respondents still maintain that nothing has changed except increased workloads. One could however stress that the level of efficiency and effectiveness has improved in comparison to past days, as nowadays products are being offered at the more competent level. One of the good signs of privatisation is the increased salaries or wages for workers in their respective companies. Workers are being paid slightly better than what they used to earn as public servants. There were however mixed feelings about this point as some respondents confirmed this while others completely denied it. Again, the respondents' opinions varied in terms of whether privatisation had improved working conditions in their various enterprises. Some respondents claimed they were still those operating under the previous working environments while others had moved to better conditions.

5.4.5 Workloads and Job Losses

The respondents thought that with increased remuneration, workers are bound to experience added workloads as it is essential for privatised companies to maximize sales and minimize costs to achieve desired profits. By so doing, unnecessary costs are reduced and productions levels are maintained. This being the case leads to retained staff facing added loads of work and more responsibilities. The Government of Lesotho through the Privatisation Unit ensures that the main reasons for privatising SOEs are to develop a viable private sector and to keep and create jobs in the country. The privatisation process requires an extensive reform of the country. The whole idea of privatisation is try to cure the system of job losses and retrenchment of workers as a way of fulfilling its objectives, but in this study most respondents felt privatisation impacted negatively on certain individuals as it caused job losses.

Hence it is worth mentioning that one of the major problems of privatisation is fear of job losses, retrenchments and/or demotions of workers. The respondents believed that many employees lost their jobs because of this whole transition, as in some cases companies were liquidated after being labeled loss-making parastatals while other companies retrenched staff for business related matters. It is no surprise that many jobs that were created by the former economic system that were not productive were lost. During the retrenchment processes, employees had to reapply for their current positions which led to workers with qualifications being given first preference. Jobs were available for those with the necessary qualifications, while those who did not qualify had been retrenched. The respondents felt that even though the new owners had to cut staff and recruited their own personnel, this did not go well with other employees as they had to lose their jobs irrespective of being offered fat packages as compensation. They have the impression that in most instances, retrenchments struck those who were already struggling to make ends meet, leaving them poor and unemployed. Furthermore, it was argued that privatisation seemed to favour or benefit only the elite.

5.4.6 Changes in Staff and Company Policies

In the respondents' opinions, there are always changes in management, staff and colleagues, especially when a company is being purchased by foreigners. For example, the managements of both Standard Bank Lesotho and Telecom Lesotho have changed, with senior positions being occupied mostly by foreigners. According to the results, managers and employees confirm that there are normally changes as the new management recruits its own personnel. Moreover, rules, regulations and procedures within such companies tend to change as well. This was also verified by the majority of the respondents, though a small portion thought there were never any amendments to existing rules and company policies.

5.4.7 Ownership, Accounting and Legislation

Most companies have introduced "Employee Share Ownership Schemes" for employees to buy shares in their companies as a way of encouraging them to be part of management. This is viewed by the respondents as a good initiative to increase the level of share interest from the public and the employees in the companies. They feel this prevents foreigners from becoming sole owners of such entities. The Privatisation Act and the respective Government of Lesotho guidelines provide for the purchase of parastatals by managers and employees alone or jointly with other local or foreign investors. The PU welcomes bids from managers and employees. With the absence of a national stock exchange, the Lesotho Unit Trust encourages and promotes local participation in the share ownership of divested Government assets for the nation. Individuals could purchase units from the Lesotho Unit Trust and qualify as unit holders.

In the respondents' opinions, the level of good accounting systems has improved as compared to previously in the public sector. They think companies are complying more with national accounting standards or International Accounting Standards when preparing their financial statements. Some companies prepare monthly or quarterly reports, together with annual reports for external reporting. Both internal and external audits are conducted with the reports being sent to the national regulators, the PU and the GOL. However, the respondents believe the public is denied access to such reports as they are not published publicly since these companies are not listed on any stock exchanges. Both companies interviewed claimed to have good corporate governance system in place that is running smoothly, but that could not be confirmed as there was no concrete evidence in terms of reports supporting this. In the respondents' opinions, companies abide by the rules and regulations of the national regulators though in some cases, regulators were claimed to be ineffective. In other cases, they were not consistent in their rules and were soft on certain entities.

5.4.8 Economy and Globalisation

The respondents believe that privatisation has brought both negative and positive changes to the national economy. In an interview with the Finance Director of AON Lesotho, he claimed privatisation had not done much but had weakened the economy of the country in terms of bringing in managerial skills and information technology that were from outside the country (yet they were available in the country), had no long term intentions about the country, did not support local infrastructure, did not emphasize local empowerment and was not improving the continental economy. The majority of the respondents felt that job losses and retrenchments were also major obstacles of privatisation as they led to high rates of unemployment and poverty. They thought it had a negative impact on household income. Many victims were public servants who lost their jobs that were very important for their living. Furthermore, they thought monopoly power that was enjoyed formerly by SOEs has been terminated as companies are engaged in competition in order to maximize profits.

For some respondents, privatisation has created jobs with the better remuneration compared to the public sector. There has also been an increase in economic growth in terms of new investments especially from international companies. According to the respondents, productivity and service levels for many companies have improved and there is an involvement of employees and the general public in buying stakes in privatised companies. The respondents think that if companies perform well financially and are able to make high profits, the GOL would benefit as it would able to collect taxes as government revenue. This kind of money could be used for Government programmes instead of paying off public debts. Not all the respondents believe that privatisation is or would ever be the absolute solution to the problems that encompass the state-owned enterprises. Some respondents even thought that nationalisation of companies would be ideal in this case as at least essential services would still be provided by the Government at fair prices.

Not only does privatisation play an important role in the national economy, but also in the world of globalisation. In the respondents' views, privatisation seems to have taken a front seat as it has become a major force in the global economy through international trading, Foreign Direct Investments (FDIs) and putting entities at the stage where they are able to cope with advanced changes and developments around the world. In Lesotho, all activities and decisions are based on the principles which the Government, the World Bank and the Legislature have agreed on to bring about economic recovery. The respondents think privatised entities are better equipped to cope with globalisation in terms of competing with their counterparts in different countries unlike when they were government-owned. They believe with skilled manpower and foreign expertise, those enterprises could help the country achieve global economic competitiveness.

5.5 Summary

This chapter discussed the data analysis and presentation of the research findings. The chapter was concerned with the analysis of responses to both the questionnaire and interview surveys. The results were calculated using descriptive statistical methods such as frequency distributions, measures of central tendency and dispersion, and cross-tabulations. The demographic details of the respondents were examined, the privatisation objectives were identified and ranked according to how the respondents feel most or least positive (favourable) about. These factors were analysed according to their significance in this study. The relationships among the variables were conducted using different analytical tools. The interview results were presented in exactly the way they were obtained from the respondents. Overall, the results for both survey methods were presented and discussed thoroughly.

The next chapter is dedicated to the conclusions and recommendations of the study.

CHAPTER SIX

CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

In this chapter, conclusions are drawn and recommendations are made based on the literature reviewed and the findings obtained from the analysis of the questionnaires and interviews from the respondents on the research study.

6.2 Conclusion and Summary

The central focus of this study was to assess the effects of privatisation, the significance of investors' ownership and the corporate performance of companies post-privatisation as compared to when they were still under the public sector. The study also examined the views given by managers and employees towards the research objective. The high rate of loss-making entities especially the government-owned ones in a developing country like Lesotho is more of a concern than other government related problems. Because the Government of Lesotho could not continue supporting non-performing enterprises financially, the Government is highly engaged on parastatal privatisation and private sector development, with the aim to improve the unstable economy. This strategy forms amongst others the primary source of growth, public share ownership and employment creation. As indicated in the previous chapter, a greater percentage of the workforce in Lesotho now comes from the private sector resulting in a huge impact on the economy of the country. The GOL has decided to privatise over fifty SOEs and has provided an enabling environment to ensure sustained economic development in which the private sector takes the lead, the Lesotho Privatisation Unit is the driving-force while the labour and the public are active participants and supporters in the entrepreneurial endeavour.

The study has examined the critical performance changes of seven top Lesotho enterprises (formerly SOEs) from different industrial sectors that experienced full or partial privatisation from 1995 to 2004. The empirical results are based on hand-collected data and electronic data covering the period mentioned. Most of the findings for privatised entities seem to be consistent with benchmark studies in terms of changes in profitability, operating efficiency, capital investments, public debts, remunerations, workloads and share ownership in certain industries. However, some other results tend to contrast some previous empirical findings in terms of labour productivity, employment opportunities and competition. This study examined eleven broad indicators of performance; total output, profitability, operating efficiency, competition, employment and wages; capital investment, share ownership, public debts, level of financial reporting and compliance with accounting standards.

The study indicates that privatisation had increased productivity resulting to improved profits and additional funds. The analysis shows that profitable performance through-out the privatisation period has been strong especially in the Lesotho Flour Mills, AON Lesotho, Lesotho Bank and Telecom Lesotho. Significantly, the improvement in the Lesotho Bank's performance has been greatest since 1999, when Standard Bank took over the management. Not only are these companies performing beyond the expectations but there has also been an increased level of operating efficiency. They have managed to make a break in the competitive environments, with the exception of Lesotho Airways Corporation (LAC) that struggled resulting to it being closed down. LAC operated for a few years after being privatised and had to terminate its operations due to strong external competition early in its existence, unfashionable air transport regulations and the September 1998 civil unrest disruptions that also affected air transport.

Nonetheless, with the introduction of competition in the marketplaces, monopoly power for some entities has been eliminated. Telecom Lesotho has matured from a state-owned monopoly for fixed services, to a privatised, privately majority-owned national operator in late 2000 and is since competing in the mobile sub-sector through a subsidiary. This has lead to Vodacom Lesotho facing stiff competition from this second cellular network provider, although the company is reported to be attracting new subscribers on top of existing ones. As for Imperial Fleet Services, in early 2003 the company was alleged to have failed to give the Government of Lesotho what the initial deal was worth. For instance, the company was accused of charging higher daily rates on short-term rentals than on normal private hire in Lesotho, and failing to issue monthly reports on time after a year of its existence. For some industries competition was unfair, resulting to certain companies complaining about foul play.

The increased efficiency translates into large gains in profitability and fresh capital investments although not much coming from abroad. There had been improved service levels, more job creations and the reduction in government borrowings. The government borrowings from external sources and subsidies on loss-makers have declined as they were affecting the economy negatively while the collection of Government revenue on profit-making entities has increased. The results show that there had been sharp cuts in the workforce and some changes in companies' management structures and procedures in the post privatisation. Most workers were laid-off during privatisation, yet production levels still managed to increase. This finding also supports the view that retrenchments and job losses attribute to high rates of unemployment and poverty as they proved to be dominant factors in the post-privatisation era.

Moreover, the natural monopoly has been terminated and then substituted by the competition that has resulted to high prices to certain essential services that are no longer being offered by the GOL. In this regard, the GOL is restricted from providing and subsidizing these essential services. Consistent with previous studies in Lesotho, most retrenched workers lost their jobs that were the sources of their households' incomes, while at the same time there had been a general increase in price levels that has complicated their lives even more. On the other hand, retained workers normally receive large increases in salaries or wages while experiencing increased workloads. In most cases, the productivity gains are attributed to better incentives to retained workers and the best recruited skilled workforce. These retained workers believe that they are capable of delivering quality services in terms of improving efficiency and production levels as opposed to recruiting new labour.

The empirical evidence suggests that the level of good accounting system in the private sector has also improved as compared to previously in the public sector. The privatised entities comply with national and international accounting standards when preparing their financial statements. The latter are audited and sent to the relevant parties even though they are still not published publicly. The companies practice good corporate governance in order to be in line with their counterparts globally though it was not easy to verify this. In addition, the companies are operating under national regulators that however need to be strengthened due to their weak law enforcements. The findings also include the opinions of respondents who claim that privatisation had weakened the country's economy in terms of not supporting local empowerment but instead attracting foreign skills and technical expertise, not supporting local infrastructure and being a short term project that is not intended to foster the African economy.

6.3 Recommendations

The introduction of privatisation in Lesotho raises many issues, challenges and opportunities. The evidence presented in this study gives mixed results as to the effects of privatisation. The following recommendations could ensure that the involvement of the private sector in the economy and development of the country can be considered a success:

- It is thus recommended that the easiest and quickest means of increasing private sector involvement in the country's system would be to outsource more services in the existing SOEs to the private sector. For instance, radio and television services could be outsourced to potential investors to improve the standard of broadcasting. In this way these investors would relieve the GOL of the burden of having to govern the country and having to control such stations.
- The Government should create a favourable environment for investment and ensure that the regulation of industries is coordinated. There must be transparency in regulation and price setting. The Government must also continue harmonising standards and regulations for various industries in accordance with those of other

world countries and expand cooperation with the neighbouring countries in all major privatisation policies.

- The issue of the national Stock Exchange should be accelerated so that these enterprises could be listed, in that manner they will get exposure, sell shares to attract investments, and stand a good chance to expand internationally.
- The GOL should stick to approving the SOEs to be privatised on the recommendation of the Privatisation Unit. Only successful bidders should be approved. In addition, the PU should conduct regular public information campaigns through media to keep other stakeholders abreast of developments in the privatisation process. Similarly, the labour trade unions should be informed of any concerns that might affect workers negatively.
- The Government should also impose a law that enforces companies to disclose their financial statements publicly. The public needs to make their won assessments on how they are performing financially and socially in their business segments, industries and geographical locations.
- Lastly, the companies must allow scholars and researchers to conduct studies/surveys for both academic and Research and Development (R&D) activities.

6.4 Areas for Further Research

In order to obtain more in-depth understanding of privatisation in general and its impact on all stakeholders, the following further research is recommended:

- Due to the nature of the findings, a follow-up research on how these companies have been performing, as a way of establishing if privatisation could be considered ahead of nationalisation in Lesotho.
- An investigation into why the common objectives of privatisation differ depending on countries. The current research investigated these factors and assumed they would fare in the same as in developed countries, but that was not the case. A

possible explanation to this could be the differences in cultures, environments and geographical locations.

- Whether direct public participation in privatised companies brought positive changes as was originally anticipated.
- An investigation on how companies should be evaluated in terms of their performances taking into consideration the corporate governance and the different industrial sectors.

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APPENDICES

Appendix A: Privatisation Transactions by Lesotho Privatisation Unit

	Sale of shares [Section 9(1) (a) Privatisation Act]	
1	Security Lesotho	1995
2	Avis Lesotho	1998
3	Lesotho Flour Mills	1998
4	Minet Kingsway	2000
5	Lesotho Telecommunications Corporation	2000
6	Vodacom Lesotho	2000
	Sale of Business [Section 9(1) (b) Privatisation Act]	
7	Plant and Vehicle Pool Services	1999
8	Lesotho Airways Corporation	1997
9	Lesotho Bank	1999
	Sale of assets [Section 9(1) (c) Privatisation Act]	
10	Orange River Lodge	2000
11	Plant Pool Workshop	2000
	Leasing [Section 9(1) (d) Privatisation Act]	
12	Marakabei Lodge	1998
	Management Contracts [Section 9(1) (f) Privatisation Act]	
13	Maluti Highlands Abattoir	1997
14	Loti Brick	1999
15	Maseru Private Hospital	2000
	Contracting out of services [Section 9(1) (g) Privatisation Act]	
16	LTC Cleaning Services	2000
17	LTC Security Services	2000
18	LTC Sanitary Services	2000
	Liquidations [Section 9(1) (h) Privatisation Act]	
19	Lesotho Agricultural Development Bank	1998
20	Lesotho Airways Corporation	1999
21	Lesotho Bank	2000
22	IFTS: American Express	1998
23	IFTS: Travel Services	1998
	Transformation of a parastatal thereof... into another form of a parastatal [Section 9(1)(a) Privatisation Act]	
24	Lesotho Building Finance Corporation – merger into Lesotho Bank	1995
25	WASA: Pit Latrine and Septic Tank Emptying Services	2001

Source: (http://www.privatisation.gov.ls.) Last Updated (27/09/01) & Accessed (05/06/05).

Appendix B. Shareholding Structure of Privatised Enterprises

Name	Sector	Year	Method	Investor Shareholding	Govt. Shareholding	Investor Nationality	Name of Investor
Marakabei Lodge	Hotel/Tourism	1998	Lease 3 yrs + extension	100%	0	Lesotho/South Africa	MCM Enterprises
International Freight & Travel Services (IFTS)-Avis Lesotho	Transport	1998	Sale of business	80%	20%	South Africa	Avis Southern Africa
International Freight & Travel Services (IFTS)-American Express	Transport-Travel Agency	1998	Liquidation	100%	0	_	_
International Freight & Travel Services (IFTS)-Freight Services	Transport	1998	Liquidation	100%	0	_	_
Lesotho Flour Mills	Agro-industry	1998	Sale of Shares	51%	49%	USA	Seaboard Overseas Limited & Saxonvale Investments Limited
PVPS Plant Pool Workshop	Transport	2000	Sale of Assets	100%	0	Lesotho	Mr.J.Ralebitso
Plant and Vehicle Pool Services (PVPS)	Transport-Government Fleet	2000	Sale of business	100%	20%	South Africa	Imperial Group
Lesotho Agricultural Development Bank	Financial	1998	Liquidation	100%	0	_	_
Lesotho Bank	Financial	1999	Sale of business	70%	30%	S. A.	Standard Bank
Orange River Lodge	Hotel/Tourism	2000	Sale of Assets	100%	0	Lesotho	Mr. G. Kou

Lesotho Airways Corporation	Transport-Airline	1997	Sale of Business	100%	0	South Africa	Rossair Contracts
Minet Kingsway	Insurance	2000	Sale of Shares	80%	20%	Netherlands	AON Holding
Telecom Lesotho	Communications	**2000**	**Sale of shares**	**70%**	**30%**	Eskom Enterprises-S.A./Econet Wireless - Zimbabwe /Telecom Mauritius	Mountain Communications (Pty) Ltd
Vodacom Lesotho	Communications	2000	Sale of shares	12%	0	Lesotho	Sekhametsi Consortium
Lesotho Building Finance Corporation	Financial	1995	Merger	100%	100%	Lesotho	Lesotho Bank
Maseru Private Hospital	Health	2001	Management contract	100%	100%	South Africa	Lenmed
Security Lesotho	Services	1995	Sale of Shares	100%	0	Lesotho	

Source: Privatisation Unit (www.privatisation.gov.ls) *Last updated 27th September 2001.*

APPENDIX C

A List of Surveyed Privatised Entities showing the Dates and Methods of Privatisation, Survey Methods and Response Rates

Name of a Privatised Entity	Privatisation Year	Method of Privatisation	Survey Method	Reason for Exclusion	Response Rate
Security Lesotho	1995	Sale of shares	-	Unavailable	-
Lesotho Building Finance Corporation	1995	Merger	-	Merged with Lesotho Bank	-
Lesotho Airways Corporation	1997	Sale of Business	-	Later liquidated	-
Maluti Highlands Abattoir	1997	Management Contracts	-	Closed	-
Avis Lesotho	1998	Sale of shares	**Questionnaire & Interview**	-	11 (20)
Lesotho Flour Mills	1998	Sale of shares	-	Declined	-
Marakabei Lodge	1998	Leasing	-	Not traceable	-
Plant and Vehicle Pool Services	1999	Sale of Business	-	Declined	-
Lesotho Bank	1999	Sale of Business	**Questionnaire**	-	19 (30)
Loti Brick	1999	Management Contracts	-	Not fully privatised	-
Lesotho Airways Corporation	1999	Liquidation	-		-
Minet Kingsway (now AON Lesotho)	2000	Sale of shares	**Questionnaire & Interview**		16 (20)
Lesotho Telecommunications Corporation (now TCL)	2000	Sale of shares	**Questionnaire**		25 (30)
Vodacom Lesotho	2000	Sale of shares	-	Declined	-
Orange River Lodge	2000	Sale of assets	-	Not traceable	-
Plant Pool Workshop	2000	Sale of assets	-	Declined	-
Maseru Private Hospital	2000	Management Contracts	-	Unavailable	-
LTC Cleaning Services	2000	Outsourcing	-	Unavailable	-
LTC Security Services	2000	Outsourcing	-	Unavailable	-
LTC Sanitary Services	2000	Outsourcing	-	Unavailable	-
WASA: Pit Latrine and Septic Tank Emptying Services	2001	Merger	-	Not fully privatised	-

Appendix D: MASTERS OF ACCOUNTING RESEARCH DISSERTATTION (COVERING LETTER & SURVEY QUESTIONNAIRE)

THE IMPACT OF PRIVATISATION; OWNERSHIP AND CORPORATE PERFORMANCE IN LESOTHO

Dear Respondent,

I am conducting a survey in order to fulfil the requirements to complete a Masters of Accountancy (Financial Accounting) degree offered by University of KwaZulu-Natal, Durban. This study is being carried to assess **The Impact of Privatisation; Ownership and Corporate Performance in Lesotho**.

Please answer all questions as truthfully as possible. There are no right or wrong answers. NONE of the raw data collected from this survey will be made public and any responses given will not be traced back to the individual respondents. As a result let your personal experience determine your response. Your name will not appear anywhere on this questionnaire, therefore you will remain anonymous. All answers are treated as confidential; and will only be used purely for academic purposes.

I would be grateful if you would spend 10 minutes of your time to fill in the attached questionnaire. Your response is important to my research. Please return the completed questionnaire to me by 31st January 2005.

Your cooperation will be highly appreciated.
Yours truly,

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SECTION A: GENERAL INFORMATION

These background questions about the respondent are for academic purposes and general statistics. You do not have to give out your name on this questionnaire as is it not needed. Confidentiality will be highly maintained. **Please circle the correct answer.**

1. What is your gender?

Male

Female

2. What is your current age?

1 Less than 30 years

2 Between 31 – 40 years

3 Between 41 – 50 years

4 More than 50 years

3. What is your educational level?

1 Postgraduate

2 Undergraduate

3 High School education

4 Other

If you selected "Other", please give a precise description ....

4. What is your general area of work? (Please circle more than one option if applicable)

1 Administration

2 Finance / Accounting

3 Marketing

4 Customer Services

5 IT/Engineering

6 Other

If selected "Other," please specify ....

5. In which sector is your company?

1 Communications
2 Transport
3 Water & Energy
4 Manufacturing
5 Food & Beverages
6 Other

If selected "Other," please specify …………………………………………..

6. This year included, how long have you been in this company?

1 Less than 5 years
2 Between 6 – 10 years
3 Between 11 – 15 years
4 More than 15 years

7. What is your position in the company?

1 Manager
2 Employee (permanent)
3 Casual employee
4 Other

If selected "Other," please specify …………………………………………….

SECTION B: ASSESSMENT OF PRIVATISATION

The aim of this study is to assess/evaluate the impact of privatisation in terms of ownership and corporate performance of entities in Lesotho. Privatisation is believed to entail some of the following listed characteristics or conditions (in questions 8 – 20). To date, do you feel privatisation of your entity has done enough to fulfil or meet these circumstances;

NB: Please answer where applicable to your circumstances, rating your answers on the table below using the scale 1 – 5 where:

1 Not at all
2 Inadequately
3 Uncertain
4 Satisfactorily
5 Very Well

8. Increased productivity?

Not at all	Inadequately	Uncertain	Satisfactorily	Very Well
1	2	3	4	5

9. Improved net operating profits?

Not at all	Inadequately	Uncertain	Satisfactorily	Very Well
1	2	3	4	5

10. Increased competitive pressure in the market?

Not at all	Inadequately	Uncertain	Satisfactorily	Very Well
1	2	3	4	5

11. Attracted foreign capital and expertise?

Not at all	Inadequately	Uncertain	Satisfactorily	Very Well
1	2	3	4	5

12. Improved service levels and job creation?

Not at all	Inadequately	Uncertain	Satisfactorily	Very Well
1	2	3	4	5

13. Increased efficiency at enterprise level?

Not at all 1	Inadequately 2	Uncertain 3	Satisfactorily 4	Very Well 5

14. Raised funds and reduced government borrowing?

Not at all 1	Inadequately 2	Uncertain 3	Satisfactorily 4	Very Well 5

15. Broadened direct public participation in the economy through purchase of shares?

Not at all 1	Inadequately 2	Uncertain 3	Satisfactorily 4	Very Well 5

16. Increased the share interest in enterprise ownership?

Not at all 1	Inadequately 2	Uncertain 3	Satisfactorily 4	Very Well 5

17. Increased the level of presentation and disclosure of both financial and non-financial information to the public?

Not at all 1	Inadequately 2	Uncertain 3	Satisfactorily 4	Very Well 5

18. Improved the level of reporting financial information to relevant stakeholders?

Not at all 1	Inadequately 2	Uncertain 3	Satisfactorily 4	Very Well 5

19. Enhanced your entity in a way to comply with national or international accounting standards?

Not at all 1	Inadequately 2	Uncertain 3	Satisfactorily 4	Very Well 5

20. Helped your entity to abide by the rules and regulations of the national regulator?

Not at all 1	Inadequately 2	Uncertain 3	Satisfactorily 4	Very Well 5

SECTION C: PRIVATISATION IN GENERAL

This section focuses on the effects of privatisation with regard to the entity's stakeholders namely; owners, shareholders, managers and employees. Listed below, are some of the possible effects of privatisation in general that respondents are kindly requested to give their opinions. **Please select the most appropriate alternative:**

1 Strongly Disagree
2 Disagree
3 Uncertain
4 Agree
5 Strongly Agree

21. Privatisation has a positive impact on an entity's performance.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

22. More opportunities are created in privatised entities.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

23. Employees tend to be satisfied with working conditions in privatised entities.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

24. Increased salaries/wages are guaranteed in privatised entities.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

25. Increased workloads are experienced in privatised entities.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

26. There are fears of job loss/demotion/retrenchment in privatised entities.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

27. There are changes in bosses, colleagues and subordinates in privatised entities.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

28. There are changes in regulations, rules and procedures within the entity.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

29. There is an improved individual performance in the entity.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

30. Privatised entities are better equipped to cope with globalisation.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

31. Extra capital is contributed in privatised entities.

Strongly Disagree	Disagree	Uncertain	Agree	Strongly Agree
1	2	3	4	5

....

THANK YOU FOR TAKING TIME TO COMPLETE THIS QUESTIONNAIRE

APPENDIX E: INTERVIEW QUESTIONS

Interview Questions with Managers:

1) What is the name of your company?

- Give a brief background to your company.

2) What led to the privatisation of your company?

- Who initiated the whole privatisation idea?
- How was the government's involvement in the company previously?

3) What basically is the company specializing in?

- What is the company's target market?
- Are they any competitors in this sector/ industry, if yes how is the competition?

4) Is perhaps the company operating under the regulator?

- Does the company enjoy monopoly?

5) Did privatisation of this company bring in any changes in terms of:

- Working environment/ conditions?
- Good customer relations?
- Improved productivity?
- Increased profits? etc

6) How was the company performing before being privatised?

7) In terms of ownership (shareholding structure), who holds how many shares?

- Will *Basotho* benefit by being sold shares in the long run?

8) Is good "corporate governance" practiced within the company?

- Are all important stakeholders represented?

9) Are the "financial statements" prepared by company in accordance to International Accounting Standards (IAS) as required?

- Are both financial and non-financial statements disclosed to the public? If not, why?
- What kind of information is made available to the public?

10) Is there a possibility that one day, this company will be listed on a "stock exchange"? If yes, how soon?

- Why is the company not listed presently?