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UNIVERSITY OF KWAZULU-NATAL

**THE EFFECTS OF PRIVATISATION OF MUNICIPAL ENTITIES ON
CUSTOMER SERVICE QUALITY: A CASE STUDY ON JOHANNESBURG
WATER (PTY) LTD.**

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**A dissertation submitted in partial fulfillment of the requirements for the degree
of
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CONFIDENTIALITY CLAUSE

To whom it may concern

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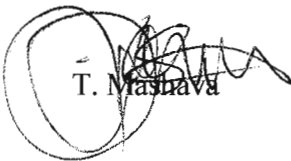
Your co-operation and assistance in this regard is highly appreciated.

Yours sincerely


T. MASHAVA

DECLARATION

I declare that this research report is my own unaided work. It is being submitted in partial fulfilment of the requirements for the degree of Master of Business Administration to the University of KwaZulu-Natal. It has not been submitted before for any degree or examination at any other university.


T. Mashava

The 30th day of May 2008

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ABSTRACT

This exploratory study investigated service quality at Johannesburg Water (Pty) Ltd (Jwater) and the effect of Privatisation of water and sanitation services on customer service quality since Jwater was incorporated in 2000.

Two questionnaires were designed aimed at Jwater's executive management and their customers respectively. The reason for two questionnaires was to ensure that neither the customers nor Jwater's management had an insight of how the other is likely to answer the questions on the questionnaire and thus manipulate their answers unnecessarily.

Both executive management of Jwater and their customers (both Institutional and Private Corporate customers served by Jwater) were interviewed using one-on-one questionnaire interview technique. The purpose of this was to get an insight of what Jwater thinks of their customer service delivery quality and as compared to their customers' perceptions on Jwater's service quality.

Both executive management's aggregated opinions on the above as well as those aggregated opinions of customers were compared. The aggregated results indicate that both Jwater and the customer groups, both private and institutional customers are of the view that privatisation of Jwater improved the service delivery of water and sanitation as provided by Jwater since 2000 when compared with the period prior to privatisation of these services and the ultimate formation of Jwater specifically for provision of water and sanitation services.

The findings in this research create a need for further research to be conducted on Individual Privatised entities which deals with different services such as City Power, Pikitup, Johannesburg Road Agency and City Parks as they might not prove to be applicable across the board for these entities and compare with customers that are still served by the City of Johannesburg (COJ) despite the Privatisation.

CHAPTER ONE: INTRODUCTION

1.1 Preamble

Many writers and researchers have long emphasised the importance of privatisation and its positive effect towards improvement of customer service quality. They indicate that governments tend to lean towards privatisation of essential services such as water and sanitation service with a hope of improving in the quality of customer service they offer to their customers. Governments try to alleviate the fiscal drain of loss-making activities by commercialising these services. This involves the creation of profit driven enterprises with the state retaining ownership.

It has been emphasised that service quality and customer satisfaction are the key elements of success to any business be it State or Private Enterprises.

1.2 Motivation and Focus of the of the Study

Immediately after 1994, the ANC government embarked on privatisation of most state owned entities by creating parastatals and outright private companies with a view of reducing the concentration of power in state's hands, divesting the state of individual responsibilities which could be better performed by the parastatals and the created private companies and for people empowerment purposes.

This study focuses on the effect of privatisation on customer service quality.

1.3 Problem Statement

In South Africa, the African National Congress ("ANC") Government has demonstrated its commitment to the restructuring of state owned enterprises. In most instances, it chooses to do so through privatisation, a method of restructuring which implies a degree of involvement by the private sector.

The recent privatisation initiatives include partial divestiture of Telkom, SAA, selling of water service business to Johannesburg Water (Pty) Ltd, the selling of electricity business to City Power and the selling of Waste management to Pick-it-up, from the City of Johannesburg to utilities Companies formed specifically for that purpose.

This research will look into privatisation of public enterprises to see if privatisation improves customer service delivery quality of the enterprise.

1.4 Objectives

The Research Objectives are:

- To investigate and determine whether a link exists between privatisation of state owned municipal entities and improvement of quality customer service delivery.
- To consider what Johannesburg Water (Pty) Ltd (“Jwater”) has to do to ensure that it achieves the purpose for which it was created and achieve long-term competitive advantage.
- To determine how Jwater should go about implementing the identified ingredients of success throughout its allocated customer base within its service boundaries.
- To investigate whether Johannesburg Water (Pty) Ltd as a water service utility company serves the purpose for which it was created.
- To assess how Customers perceive the quality of water and sanitation service as provided by Johannesburg Water.
- To assess whether customers feel that there is a gap closed between the quality of service they received previously from the City of Johannesburg and those that they expect to receive from Johannesburg Water.
- To determine the extent to which Customers feel that the quality of services at Johannesburg Water was improved by transferring the water service department

from the City of Johannesburg to Johannesburg Water by way of management contract entered in between the parties.

- To determine the extent of involvement of the City of Johannesburg and the Department of Water Affairs in regulating functions of utility Companies such as Johannesburg Water.
- To determine whether the privatisation was in fact a good idea or not, and whether the Municipality should retain the water service business.
- Finally, to determine any difference in the relative importance of the relevant factors.

1.5 Propositions

- There is a link between privatisation of state owned municipal entities and improvement of quality customer service delivery.
- Johannesburg water (Pty) Ltd (“Jwater”) has to improve on number of customer service ingredients to ensure that it improves on customer service quality.
- Customers perceive the Quality of water and sanitation Service as provided by Johannesburg Water as being good.
- Jwater’s perception of the quality of service delivered is excellent as opposed to what the customers perceive the quality of service received to be.
- There is a different perception of quality of service delivered by Jwater between Corporate and Institutional customers.
- Customer perception of regulation has no impact on service quality.

1.6 Limitations of the Study

Although the probability sampling technique is employed in order to make inferences from the sample about the population (Jwater's existing customer base) to answer the research questions. This study is still limited to City of Johannesburg's boundaries stretching from Midrand in the North, Jukskei River in the East, Roodepoort in the west up to Orange farm in the South. Most of the Private Corporate Clients as well as Institutional clients are concentrated in the North and the Central region of Johannesburg area. Therefore the results of the pilot study may not necessarily indicate that possibility of customer experience in so far as Jwater's customer service quality is concerned concerning the impact of privatisation of municipal entities on customer service quality of all the customers concerned elsewhere in the Johannesburg Regions or even the whole of South Africa.

Further, the research is only limited to one organisation, Jwater, whereas there are other privatised entities within the City of Johannesburg itself which were formed around the same time with Jwater for the similar reasons of improving on customer service quality, namely, City Power, Pikitup, Johannesburg Road Agency and City Parks. This limitation will have an impact if the results of the study are applied across the board as the customer experiences may differ between these entities.

The scope may be limited by the fact that a sample size may be considered not representative enough as to provide reliable clues, that is it might be difficult, for example to utilise the finding of the Johannesburg region and assume that the findings can be used to implement the same privatisation strategy in a distinctly different local market for example in KwaZulu- Natal.

Additional limitations of this research include time constraints, costs and the customer experience bias inherent in the research design. Data gathered though will be used to analyse the extent of the relationships of privatisation and customer service quality.

It will also look at the role of privatisation and its impact on improving customer service quality.

1.7 Conclusion

Chapter one provides an introduction to the concept of privatisation and customer service quality as well as providing a basic background of Jwater's privatisation and its customer service quality. This chapter outlines critical areas of the study thus providing the reader with adequate information concerning the following: motivation for the study, problem statement of the study, objectives, proposition and limitation of the study. The information discussed above paints a portion of the picture about this study. Now that all the introductory information has been articulated in this chapter, the next logical area to explore should be the concept of privatisation and service quality models. Chapter two will strive to provide in-depth insights towards understanding basic principles of privatisation and service quality models, which is necessary in understanding how to manage customer satisfaction in service encounters.

CHAPTER TWO: THEORETICAL FRAMEWORK

2.1 Introduction

This chapter looks at the concept of Privatisation in terms of how different writers have conceptualised it. The different ways in which the authors have defined privatisation is examined. The objectives, methods and characteristics of privatisation will be examined. Customer Service Quality is also evaluated, particularly as it relates to municipalities.

2.2 Privatisation

A number of authors have made contributions to the conceptual theory of Privatisation. (Savas, 1987) for example, defines Privatisation as the act of reducing the role of the State or increasing the role of the private sector in an activity or in the ownership of assets that are in the hands of the State. Savas (1987) further views privatisation as a strategic approach to the improvement of the productivity of the government agencies whereby greater value for money is facilitated on behalf of the citizens.

McGregor's (1987) view on privatisation is that it is a systematic transfer of appropriate functions, activities or property from the public to the private sector, where services, production and consumption can be regulated more efficiently by market and price mechanisms (McGregor, 1987). According to McGregor (1987), the process of Privatisation forms part of the strategy whereby, firstly, the public sector's involvement in the economy can be limited or reduced so that more capital, means of production and opportunities can be made available to the private sector. Secondly, the private sector is given the opportunity to develop and grow optimally and with minimum state intervention.

Both Savas (1987) and McGregor (1987), though using different wording seem to agree in principle that Privatisation involves excluding and/or limiting state involvement in service delivery through reduction of the role of the state to complete transfer of appropriate functions.

Vuylsteke (1988) takes the views of both Savas (1987) and McGregor (1987) further by adding that Privatisation is a transfer of commercially oriented state owned enterprise activities or productive assets of the government to total majority or minority private ownership or to private control. Donahue (1989) on the other hand describes privatisation simply as a delegation of public duties to private organisations.

Martin (1993) believes that Privatisation does not just narrowly denote change of ownership but submits that it is defined in terms of change in the role, responsibilities and priorities and authority of the state. According to Martin (1993), privatisation if used pragmatically along side other policy instruments, can contribute to establishing the balance of state, market and society best suited to the current needs of a country's people. Depending on particular circumstances, privatisation can play part in improving the way public services are provided.

From the above definitions, it can be deduced that the purpose of the Privatisation is to improve performance of the economy in the following manner: effective use of production factors; optimal functioning of market forces and increasing the percentage of the net fixed investment in the private sector.

Moyo (1995) concurs and actually crystallises the concept by saying that Privatisation is cast as the gradual process of disconnecting state owned enterprises or state provided services from government control and subsidies and replacing this duct with a conduit linked to market forces. However, Moyo (1995) notes that such a definition assumes the existence of a market centred economy with a private economic regime, which clearly is not the reality of many African countries. Taking this factor into consideration, he therefore suggests that a more relevant and indeed, complete definition is one that goes

further to characterise *privatisation as the entire process of expanding the sphere of the market through a host of regulations that create an enabling environment for free enterprise to operate as a strategy for sustainable economic development*. Moyo (1995) further postulates that in the context of the broader goals of human settlements and economic development, when properly conceived and implemented, privatisation is envisaged to foster efficiency and encourage investment in infrastructure and services (Moyo, 1995).

In concurring with the earlier authors on the subject matter, Shipp (1998) concludes by defining privatisation as a method of restructuring enterprise whereby “...restructuring is achieved through transfer of full ownership of rights of operation of a business from the state to the privatised sector”.

It is in the light of the above context that this study will evaluate Johannesburg Water (Pty) Ltd, specifically in terms of its customer service quality.

Moyo (1995) states that within the municipal services privatisation generally refers to:

- a. reducing local government *activity* within a given service either by involving the participation of the private sector; or
- b. reducing local government *ownership* when (i) enterprises are divested to unregulated private ownership and (ii) local government agencies commercialised.

Accordingly therefore, Privatisation in municipalities includes: management contracts, concessions, franchises, leases, commercialisation and pure private entrepreneurship. Privatisation can also be viewed as a form of decentralisation of management functions from government to private enterprises (Moyo, 1995).

The looseness of the privatisation definition means that there are many restructuring activities, which constitutes Privatisation measures. Shipp (1998) asserts that the extent

of Privatisation measures for each public enterprise will differ depending upon the merits of each case and perceived need for any continuing shareholding by the Government.

The optimal balance of private and public ownership will be discussed and achieved in the light of the circumstances pertaining to each business.

From the above, one can conclude that any type of restructuring activity, which introduces the involvement of the private sector, whether in a management role and/or in the ownership role, falls within what is generally understood as Privatisation.

2.3 Objectives of Privatisation

The above definitions demonstrate that there are factors and pressures that compel government to privatise public enterprises. The government is then required to consider that by evaluating the following factors:

2.3.1 Recapitalisation of Public Enterprise

Van Huyssteen (1998) indicates that the main economic reason of privatisation is that public enterprise in South Africa requires capital injection to ensure that they satisfy the increasing demand for the sophisticated services, deliver such services to broader sectors of the community, replace outdated equipment and yet remain competitive and financially self sustaining at all time.

2.3.2 New Technology and Expertise

For the public entity to efficiently roll out its services to its broad customer base, it is crucial to retain a competitive technological ability which is something often lacking in many public enterprises (Van Huyssteen, 1998). Privatisation has the benefit of the necessary technology and expertise being introduced. In the case of South Africa, the requirement for management, capital and technology were of such magnitude that it

could not be achieved through internal structure, thus 30% of Telkom SA was sold to American and Asian telecommunication investors for such attributes (Naidoo, 2001).

2.3.3 Attraction of Investments

By allowing Foreign Investments to flow into newly privatised entities, the economy is boosted and desirable level of commitment of foreign funds is secured, (Van Huyssteen 1998).

2.3.4 Improved Efficiency and Service Levels

According to Semka (1985), nationalised industries have no incentives to be efficient as private enterprises because they are effectively insulated from the need to compete for consumers' capital and conform to consumers' expectations regarding their products or service. Furthermore, they do not face the sanction of bankruptcy or take-over, do not have to account to shareholders and in some cases do not even have to earn profits.

Viscusi, Vernon and Harrington (1992) state that: "in order to win a privatisation franchise, a private contractor must offer higher quality services and low prices than competitive bidders. Thus, competition constrains the firm from overcharging and encourages efficiency. Similarly, a regulation of an industry has the same effect in that the firm is constrained by threats of takeovers and replacement of management if the firm performs poorly. However, the public enterprise does not face any of the pressures and thus has a greater discretion to operate inefficiently".

The above submissions have not gone without being challenged. It has been argued by a number of writers that ownership has no impact on the efficiency of an enterprise (Galal, 1994). Publicly owned enterprises are less efficient because they enjoy insulation from competition other than because they are publicly owned. Hence, the company such as

Singapore Airlines which remain publicly owned is more efficient because it is forced to compete with other regional airlines.

There is a general belief that private sector operates at a more profitable and efficient way than the public sector, thus leading to a wide privatisation of a vast majority of public sector enterprises. In this regard, the great benefit of privatisation is that both the consumer and investor will benefit if, through improved efficiency, the entity delivers the required services affordably yet still brings about profitability (Van Huyssteen, 1998).

Shipp (1998) argues that the central and overriding objective facing the South African government is to re-structure the state owned sector into series of efficiently well managed financially independent companies capable of providing goods and services at affordable prices to the mass of historically disadvantaged South Africans. This has been clearly evident at the Johannesburg Municipality where around 1999-2000, the City of Johannesburg formed companies such as Johannesburg Water, City Power, Pikitup, City Parks as well as Johannesburg Road Agency to manage essential services such as water and sanitation, refuse removal and waste management, electricity and maintenance of roads within the Johannesburg Municipality (City of Johannesburg, 2001).

Following up on both Van Huyssteen (1998) and Shipp's arguments (1998), Krakoff (1998) contends that service delivery; cost effectiveness and efficiency are best accomplished in the context of the privatised entity rather than public enterprise or parastatals.

Therefore based on the above it is clear that there is virtually universal consensus that privatisation improves customer service quality.

2.3.5 Freeing up Resources for Social Services

Kikeri (1998) cites freeing up resources for social services as compelling reason for privatisation all over the world. According to the Business Map (1998), the dampening

growth prospects and hence rising concern over government's ability to meet its deficit targets during the 1999 fiscal year, the government revived market interest in privatisation as a key source of deficit reduction and release of funds for social and other state spending.

2.3.6. Black Economic Empowerment

Former Minister of Public Works, Stella Sigcau (1998) has stated that from inception, the government has insisted that all individual restructuring exercises should include provision for empowerment on substantial scale. She stressed that all corporate restructuring has to include commitments to raise the skill levels of workers, allocate jobs at all levels to the previously disadvantaged and enable employees of each privatised entity to participate in the equity of the entity for which they work. In addition Sigcau (1998) stressed that there was a need to provide investor groups with allotment of shares in privatised public enterprises.

Both Sigcau (1998) and Shipp (1998) referred to the newly established national Empowerment Fund which holds shares in privatised companies and enables those members of society who were previously disadvantaged and denied access to the economy an opportunity to invest in the shares of such restructured companies.

Shipp (1998) emphasises that affirmative action is, in the government's view, an essential pre-condition for the success of any restructuring exercises as it is a means of obtaining the consensus in favour of radical restructuring as well as being an end in itself.

Concerns has been raised that by treating privatisation projects as empowerment exercises, a perception will be created that there is too much political interference in the process and therefore create a disincentive to would be investors. Clearly it would be counter productive for empowerment to eclipse commercial and financial considerations.

2.3.7 Social Welfare

Semka (1985) states that privatisation of public and social services that fall within the government's sphere of responsibility, is one of the fastest growing areas of general privatisation worldwide. He adds that the main rationale is that considerable cost savings as well as improved service levels and greater efficiency have shown to result. The popular view is that the provision of essential services ought not to be privatised until sufficient regulatory protection is entrenched and sectoral policy is well defined so as to ensure that delivery of such services is not in anyway compromised.

The government has an obligation to make essential services available and affordable to the public. Despite the fact that there may exist appropriate method to privatise the provision of such services, it is a contentious issue, as private sector operators are driven by the desire to make profits rather than the social welfare of the people. Foster (1992) indicates that proponents of nationalisation believe that because certain enterprises have to provide a service to all, a state owned monopoly is most suitable to prevent them from ignoring the customers who are not profitable, for example, a transport operator may refuse to provide transport to remote areas due to it being not cost effective or refusing to service non-remunerative sectors of society such as the disabled.

Viscusi *et al.*, (1992) confirms that there is a need to view certain firms in terms of objective of welfare maximisation rather than profit maximisation. Because profit maximisation is the single objective of the privately owned firm, shareholder's wealth is maximised. Therefore, private ownership conflicts with the objective of social welfare maximisation and therefore it is best for the firms with such an objective to remain state run entities.

Foster (1992) assessed the viability of privatising a public enterprise where economic efficiency and profit maximisation is not the overriding objective and advanced the argument that one cannot successfully undertake privatisation or the successful

corporatisation of a public enterprise unless the goals of profitability and/or economic efficiency are the guiding objectives. The reason he advances for this proposition is that the accounting and management techniques which one uses to control, measure, incentivise and monitor a public enterprise which has been corporatised or privatised, are designed to assess adherence to these goals. They do not apply to public enterprises that are not profit orientated.

Foster (1992) suggests that a solution is for the government to subsidise and/or award contracts to the private sector operator which demonstrates an ability to attain these non-commercial objectives in a profitable manner. Thus privatisation can still take place under those circumstances. The case of retaining public enterprises is greatest where it is not possible to clearly define the non-profit objectives in a simple contract and provide financial incentives for their attainment.

Krakoff (1998) support the argument and states that public enterprises which provide services which are essential components of the effort to socially and economically empower people should not be privatised for this will mean them losing the objective of social protection, equality and equity.

2.3.8 Strategic Nature of the Public Enterprise

Ferreira (1996) regards a management contract as the ideal privatisation option for the public enterprises over which the state may not wish to relinquish ownership, due to their strategic nature. The state needs to decide the extent to which it is prepared to alienate a particular public enterprise. It may decide that certain strategic functions and natural monopolies ought to be handled on concessions by the private sector operator who shoulders business risk yet ownership is retained in the public sector which shoulders political risk. The above privatisation strategy is similar to the one adopted when Jwater was incorporated in 2000 with a view of handling the water and sanitation service on behalf of the City of Johannesburg. The City of Johannesburg remained the major

shareholder of the newly formed water services entity and thus retained control and ownership of the water service business (City of Johannesburg, 2001)

Vuylstekke (1998) states that when privatisation involves a strategic sector, the government prefers to retain an element of legal and regulatory control over the privatised entity and will hence usually retain partial ownership. An example is the retaining of 60% ownership of Telkom SA, which enabled the government to stay in control of this strategic sector and still continues to fulfil its social obligations.

2.3.9 Natural Monopolies and Regulations

Foster (1992) submits that it is impractical to break up certain services in order to introduce competition, as certain natural monopolies require critical mass to achieve the economies of scale required for efficiency and thereby ensuring that services are affordable to the customers at large.

Viscusi et al (1992) agreed with Foster's assertion and speak of the importance of attaining productive efficiency, which requires that a single firm produce in order to minimise the costs of producing the resources supplied to the market. It was also pointed out by the same authors that the danger in such a scenario is that allocative efficiency cannot be attained. Allocative efficiency is generated through there being enough firms competing so that prices could be driven downwards to marginal cost, thereby benefiting the consumer. The eternal tension between the theories of allocative efficiency and productive efficiency favours a strong case for a government regulation where the market is a natural monopoly. The authors conclude that natural monopoly is the most argument utilised for justifying economic regulation.

The issue of regulatory structure chosen and the extent thereof is a delicate one in that it must not discourage private sector operators from continuing to invest in the industry nor take away their ability to increase their returns therefrom. At the same time regulation

must ensure that firms keep prices affordable and deliver the natural service in a cost effective way.

The structure of the regulatory agency is critical to the success of any privatisation project where regulation is deemed necessary. Foster (1992) stresses the importance of the regulatory agency being distinct from ministerial control and government policy stipulations. A body that is guided by economic, quality and social welfare criteria, each of which are well documented in detailed legal contract signed by the private sector operator.

Viscusi et al., (1992) describes the regulation as emanating from legislation which either creates or nominates a regulatory agency to implement the regulation of an industry and restrict the decisions of economic agents. Authors points out that regulation is usually directed at controlling price, quantity and entry into and exit out of the market. Less frequently, regulation is usually directed at controlling variables such as product quality and investment. However, it is physically impossible for the government to regulate every decision of a firm; therefore market forces still play an important role.

Donahue (1989) recommends that privatisation should only take place when the natures of services provided are such that the government is practically able to regulate the industry. By this he means that it is possible for the government to contractually define in detail the public services that the private sector contractor must supply, to evaluate performance thereof and to impose sanctions for non-performance. In addition he suggests that privatisation is appropriate where it is the type of service where government is comfortable permitting the private sector operator to devise its own cost effective and innovative manner of providing the service stipulated in the contract.

Carbajo, Estache and Kennedy (1997) elaborate upon the concept of regulating quality and stress that the extent of the private sector operator's obligation in this regard ought to be set out in the contract. Otherwise, a grey area is difficult to monitor hence invites operators to compromise upon quality in order to save costs and increase their returns.

The writers advise the regulators to stipulate in the contract the level of quality desired, detailed indicators of what constitutes quality and the instruments of attaining quality. Thereafter it is possible to monitor performance and to apply penalties for poor performance. A variety of factors which influence the level of quality chosen are elaborated upon such economic, social and political factors.

According to Vuylstekke (1998), the main question on privatisation is whether it is in the best interest of the public to privatise a public enterprise which holds a natural monopoly over the services it provides to the public.

2.3.10 Improvement in Efficiency and Service

Caves and Christen (1980) contend that public ownership is not inherently less efficient than private ownership rather the inefficiency of the public enterprises is attributable to the fact that they are insulated from competition rather than the fact that they are publicly owned. The allusion to competition demonstrates that there is a macro economic dimension underpinning privatisation decision.

Foster (1992) contends that it is possible to regenerate and reform certain enterprises without implementing changes of ownership or control implicit in privatisation. Shipp (1998) agrees, stating that an internal process of self-regeneration should be possible within any company whether it is privately or publicly owned. For example, Singapore Airlines is the most profitable airline in the world yet it has not been privatised. However, this might be attributed to the fact that they probably have a watertight business charter that allows management to run it as a sound business. Thus a conclusion that it is not important in whose hands ownership vests rather the type of business strategy followed by that particular enterprise.

Krakoff (1998) believes that one needs to ask whether privatisations are necessary or whether corporatisation of a public enterprise is sufficient to bring about the desired gains

in efficiency, quality of service and value for money. Corporatisation involves structuring of public enterprise in the same manner as the private enterprise so that it operates in accordance with the same commercial measures, restrictions, guidelines and objectives. However, no involvement by the private sector takes place.

Krakoff (1998) is critical of corporatisation as an end in itself. He states that despite the autonomy granted to management of parastatals, governments still interfere in issues of appointment of directors, recruitment policies and freedom to retrench or be liquidated. Furthermore, government also tends to insulate parastatals from competition which is important factor for motivating gains in efficiency. He suggests that the creation of parastatals will not be sufficient to meet the objectives of service delivery efficiency and cost effectiveness and that for these goals to be achieved ownership as well as management needs to change and true competition is required. Hence, commercialisation should not be treated as part of the process leading to full privatisation but as an end in itself, otherwise it is likely to fail.

Most proponents for privatisation like Krakoff (1998) favours privatisation over corporatisation. The reasons they give are as follows:

- In general, the investigations and reviews of public enterprise are more thorough when privatisation is proposed other than when corporatisation is suggested.
- Taxpayers are not forced to shoulder the unwelcome financial burden of funding public enterprises once they are privatised.
- Financial market forces and disciplines act more naturally upon privatised entities and enable the market to place valuations that are more realistic.
- The threat of privatised entities being the subject of a hostile take-over is a powerful spur to management.
- Capital is raised by the government.
- Privatisation is irreversible whereas where the government retains ownership of the public enterprise, there remains the fear of interventionism and reversal of objectives.

Kobokoane (1998) voices concern that South African government is considering the establishment of new parastatals such as State owned Oil Company, information Technology Company and housing company when there are preferable alternatives involving private sector.

2.3.11 Supportiveness of the Environment

Any privatisation decision involves assessment of the economic, societal, political, legal and industry conditions that prevail in the country and whether they support privatisation or not.

- *Economic conditions-* Van Huyssteen (1998) portrays privatisation as an imperative for economic growth for it enables the effective utilisation of state assets. He points out that privatisation alone will not necessarily impact upon nor benefit the economic growth rate in South Africa it forms part of the integrated macro economic policy. Thus, it requires an environment conducive to healthy competition, deregulation and characterised by sound fiscal and monetary policies.
- *Electoral Support-* According to Foster (1992), public support is essential for successful privatisation. A shift in a mindset from the earliest dominant view that the most efficient enterprise were the nationalised ones to the latest view that privatisation of public enterprises is best for the society.
- *Industry Acceptance-* Porter (1980) suggests that useful framework for analysis of forces that drives the industry when assessing the viability of a privatisation is to assess the Five Forces, namely, the threat of new entrants, extent of industry rivalry, bargaining power of suppliers, bargaining power of buyers and threats of substitution.

- *Political Support*- In order to attract private sector capital through privatisation it is essential to gain support of political and business leaders for the concept of privatisation. In South Africa, business leaders and politicians have shown demonstrable support of privatisation.
- *Legal Environment*- In order to attain successful privatisation, privatisation decisions should not contradict legislations and policy documents that deal with privatisation. While maintaining its independence, the judicial system needs to be in support of privatisation and uphold the contractual rights of the private sector.
- *Culture and Motivation*- For the performance of the organisation to change, the behaviour of the individuals comprising the organisation needs to change and comply with global business practices. There are personalities and attitudes that are extreme opposite of what is required in the competitive industry. Therefore, culture change is the sine qua non of efficiency (Foster, 1992).

Williams, Dobson and Walters (1989) state that organisational culture is the commonly held relatively stable beliefs, attitudes and values existing in an organisation. The benefits of a strong organisational culture are that employees make above average effort, are committed to the organisation and demonstrate proaction, spontaneity, cooperation and initiative. Introduction of external stakeholders “unfreeze” organisational culture. Strong leadership and commitment also leads to success of the organisation.

Shipp (1998) asserts that share ownership schemes are necessary for motivation of employees in all restructured companies. The government will in turn insist on excellence of corporate governance and will ensure that an appropriate regulatory framework is in place to ensure adherence to these aspects.

2.3.12 Timing of Privatisation

It is important to introduce privatisation at the right time otherwise even well thought privatisation phenomenon is doomed to fail if introduced at the inopportune time. In the case of SAA, privatisation was postponed so that organisation's profitability and performance could improve to world standards and hence the value of attraction of the company to potential investors would be enhanced (COSATU, 2000)

2.3.13 The Effect of Privatisation in Labour

Perceptions expressed publicly about privatisation by both business and labour evolved in South Africa in mid 1990s and the position continued into the millennium, became appreciably less dogmatic from all sides in the early 2000's (Khumalo, 2001).

There is a general acceptance that low State Owned Entities (SOE) productivity is problematic, and that collective action is needed. Blame by one party on others continues to occur with little provocation International Labour Organisation (ILO) (1999). The ILO country report on the social effects of globalisation which found South African labour market was too flexible compared with other developing countries. The report confirmed labour's view that South African investment levels, at 17% of GDP were the basis of an unemployment crisis since the other middle-income countries investment rates were over 25% GDP (Business Report, 1999). Savas (1987) notes that privatisation in the United States of America (USA), improved productivity and competitiveness.

Inevitably, labour becomes the casualty of many privatisation initiatives, hence the negative reception of privatisation by the working class. Another dominant view perceives that privatisation was not as effective and efficient as it was portrayed, and that it does not promote competition as it is alleged. COSATU argued that

privatisation lead to domination by multinational companies. In 1996, only nine companies operated worldwide private sector water provision (SA Labour Bulletin, 1996). The government had to bear the social costs of privatisation and the attendant problems of job losses. Savings made through privatisation services were often outweighed by an increased burden on government with regard to unemployment and social security payments. The quality of service frequently deteriorated after privatisation, as governments accepted the lowest tender which was an incentive to companies to minimise labour and service standards (Ronnie, 1996). The macro view of privatisation would acknowledge the need to employ workers productively if they lost their jobs due to privatisation (Beesley, 1997). This is necessary to offset the burden of society of unemployment so that privatisation would not become successful for one party at the expense of the whole society.

Skosana (1996) maintains that privatisation is a necessary strategy for the realisation of productivity improvement, efficiency and cost cutting to enable the country's resources to be used in other important areas. The national vision of productivity that was driven centrally would be instrumental in overcoming the obstacles that are faced by South Africa. It is also important that the government, business and labour share common vision of optimal growth and productivity.

In evaluating the National Framework Agreement, Skosana (1996) stated that the purpose of the National Framework Agreement is to establish a process for the restructuring of state assets based on agreed objectives and principles and to recognise it as an inherent part of the government's macro economic strategy. The parties express a commitment to the following propositions:

- Providing affordable good quality basic services to all South Africans with a focus on the poor and disadvantaged communities;
- Restructuring state assets in order to increase economic growth and employment;
- Meeting basic needs;
- Reducing state debt;

- Attracting private sector capital and technology for infrastructure development;
- Raising capital which can be re-deployed;
- Enhancing competition; promoting efficiency and developing human resources.

The National Framework Agreement specifies various principles that protect labour in any restructuring process. For example, where a restructuring could be adverse to workers, a social plan must be negotiated with the relevant Unions to take into account their needs, every effort should be made to retain employment, re-deployed workers are to receive equal benefits and conditions of employment.

One cannot, however, assume that union support will be readily forthcoming, as Chothia (1998) illustrates when he writes that the SA Democratic Teachers Union (SADTU) vowed at its national conference to campaign against the privatisation of education in the country.

Foster (1992) observes that when employees become owners of shares, union membership declines dramatically. This occurred in Britain and impacted adversely upon the traditional support base of the Labour Party.

Kikeri (1998) discusses the effect of Government divestiture on labour and proposes a strategy that will ensure labour support for privatisation and acceptance of labour adjustments and hence enable it to create a “social safety net” sorely needed to minimise the negative impact upon workers and sets out the components of such a “safety net”.

Kikeri (1998) emphasises the importance of creating the correct initial conditions in situations where public enterprises have had no exposure to competition and labour mobility and where there is invariably overstaffing, high wages and protective labour contracts. The impact of privatisation of such public enterprises is dramatic as substantial job losses, wage reduction and flexible labour contracts will flow. In public enterprises which have been subject to market forces, which are not

overstaffed and where labour do not enjoy abnormal protection and benefits, privatisation impacts less severely. However, one has to address the concerns of organised labour from the start.

Pityana (1998), the then Director General of the Department of Labour contends that privatisation is closely allied with policy of employment equity as set out in the Employment Equity Act. As such, it is part of the broader economic transformation policies designed to create an enabling environment for the disadvantaged society.

In August 2001, National Labour and Economic Development Institute (NALEDI) held a conference to debate on alternatives of privatization (NALEDI, 2001). This organisation provides research and advisory service to the Congress of South African Trade Unions (COSATU) and its affiliates.

Despite the positive objectives of Privatisation of State Owned Entities (SOE) discussed above, NALEDI's conference focused on alternatives to privatisation. The main issues discussed at the conference regarding the impacts of privatisation on of SOE's were the following:

(a) Outsourcing Accountability – It was generally agreed that one of the major impacts of the privatisation process thus far, has been the reduction of democratic accountability in government and state-owned enterprises. Key observations made in this regard were:

- (i) *Consultants have a conflict of interest:*** Consultants providing government with advice on restructuring plays both an advisory role and serves as transaction advisers. This means that consultants have a material interest in driving the privatisation process, as they will reap fees for transactions completed. Consequently, the advice provided to government is not impartial or in the best interests of the country, but rather structured to enrich, often large, international consulting companies. Experiences of

this conflicting of interest were evident in electricity, transport, water and local government sectors.

- (ii) ***Need to Strengthen Parliament's Role:*** The Portfolio Committee on Transport was applauded for having held public hearings on the restructuring of Spoornet. Labour, business, community, and other stakeholders' submissions were heard, thus informing the parliamentary processes. This example has however not been replicated in other sectors. Parliament's oversight role over the process of restructuring state assets thus needs to be strengthened.
- (iii) ***The Role of Department of Public Enterprises:*** The Department of Public Enterprises (half in jest called the Department of Privatisation) has a responsibility for oversight of enterprises. However, this oversight role impinges on the policy choices of departments in different sectors (e.g. transport, electricity). Yet, the departments working in particular sectors are in a better position to make these policy choices. On this basis, the need for having a separate Department of Public Enterprises was questioned, with suggestions that the department be closed down and functions integrated into the different line departments. The Presidential Review Commission on the Public Service made a similar suggestion in 1998.
- (iv) ***Lack of Information and Transparency:*** Reports from enterprises to regulators have been incomplete and patchy. This has reduced the oversight capacity of regulators over enterprises. Enterprises have not released information on prices, expansion targets, disconnection, and the like. This makes it difficult to critically assess compliance to license conditions.

(b) Implications for service delivery;

At this conference several negative impacts of the restructuring process on service delivery to the poor were noted. The key criticisms were:

- (i) **Service charges to the poor are likely to increase:** Since the introduction of a Strategic Equity Partner in TELKOM the pricing structure has been changed significantly. The cost of local calls has increased by 35% in real terms, while international calls and costs for other services used by wealthier customers has been reduced. The shift in the cost structure reflects TELKOM's positioning itself for future competition. Simply stated, TELKOM is capturing the higher end market before competition is introduced. Financing the capture of this market however comes at the cost of cheaper services to the rich, and more expensive prices to the poor. Similarly, government estimates that the price of household electricity after restructuring is projected to increase by between 22 % and 50%.
- (ii) **Privatisation will reduce finances for extending services:** The ESKOM Amendment Act and the ESKOM Conversion Bill have provided for incorporation of ESKOM under the Companies Act. Consequently, government has to budget separately for the extension of electricity services. In 2001 the budget has shown a decrease of about R 600 million (or 40%) budgeted for extension of services by ESKOM. Increases on this amount have however, occurred due to interventions from COSATU. Sustainable increases in spending for electricity expansion are doubtful, due to a seemingly uncoordinated approach between the South African Revenue Services (SARS), National Treasury and responsible ministries. On the one hand, government argues that the taxes ESKOM pays will be used to finance rollout of electricity. On the other hand, the South African Revenue Services has exempted ESKOM from taxes, so as to allow the utility to prepare for competition. Moreover, sustainable increases for electricity expansion are subjected to excessively stringent macro-economic parameters. Real decreases in spending on extension services for electricity are thus likely to occur in the medium-term.

(iii) **Foreign Direct Investment does not necessarily flow:** One of the main arguments for privatising services is that foreign direct investment will occur. Experiences with the Nelspruit concession for water however offer a more pessimistic account of foreign direct investment. The concessionaire – a subsidiary of the multi-national Biwater – promised extensive investment in water services. However, the promised investment has not materialised. Instead, the Development Bank of Southern Africa has had to provide a loan to the concessionaire to keep the project afloat. This is a perverse situation, where government agencies are subsidising large multi-national corporations, through loan finance.

(c) In terms of specific sectors such as the **Water Sector**, the following was observed:

While government has succeeded in rolling out more water infrastructure (taps and pipes) to the poor, communities are expected to pay. Even communities who never paid for water before now have to. While government has intended to contractually oblige the outsourced water management companies to deliver affordable and quality services, in practice contracts have been invariably renegotiated soon after privatisation, and tariffs increased. This has led to many of the poor being forced to go back to use rivers as a source of drinking water, contributing to the deadly cholera outbreak in KwaZulu-Natal early in 2001. Although national government announced a “free water” programme, without the support of additional national funds this programme is likely to fail.

(d) Role of the private sector;

Participants at the workshop agreed that the private sector had a role to play in the delivery of services. In particular, where capacity was lacking for extension of services, private sector participation was seen as an option. However, long-term concessions and splitting up of agencies were not seen as part of the private

sector's role. The state should maintain overall control and ownership for provision of services.

(e) Gender implications;

The process of Privatisation has differential impacts, and will impact more on working class women. In particular, the following was noted:

- (i) **Employment:** The public sector constitutes 25 % of formal sector employment for women. In addition, women employed in the public sector occupy jobs that are often targeted for outsourcing (e.g. cleaning, catering). The Privatisation process would thus see women – particularly those in lower income groupings – being retrenched or entering informal work arrangements. A shift from quality jobs to less secure jobs and unemployment for women is therefore likely to result from government's restructuring proposals.
- (ii) **Services:** In 1998, 71% of African households were fetching water for domestic use and 41% were fetching wood. Women, more often than not, fulfill this domestic and unpaid work. Privatisation processes are likely to increase prices, and thus perpetuate this situation. Women headed households, in particular will have acute difficulties paying for essential services from private sector operators, who seek lucrative markets. This is due to women headed-households earning less than males.
- (iii) **Impacts on workers;**

It was general consensus at the conference that Privatisation has an effect on job losses, thus it is not favoured by the labour unions such as COSATU

The key impacts from the restructuring process are:

- Shift towards greater casualisation;
- Reduction in benefits and conditions of service; and
- Increased unemployment.

(iv) Role of the state

It was also noted that the Privatisation process would have a significant impact on the role of the state. Two major issues arose from discussions on the role of the state:

First, a perspective on the developmental role of the state was developed. Central to the state playing a developmental role were:

- Developing and leading an economic growth and development strategy;
- The provision of basic needs and infrastructure, thereby widening the ‘social wage’;
- Democratising the public sector and society;
- Creating alternative and social forms of ownership.

Second, the Privatisation process would significantly reduce the developmental role of the state, as it would not be able to fulfill the functions of the state.

(v) Developing alternatives.

Finally on the question of whether alternatives to Privatisation existed, both government and the Unions (SADTU) made recommendations and responses respectively as follows:

- Specifically with regard to Water Sector specifically, the government proposed that Regulations need to be developed and these will enhance private sector participation through public-private partnerships. The

union's response to the government's proposal was that Public-Public Partnerships (i.e. partnerships between water boards and local authorities) must be considered. They added that Pilot projects have been established in Odi and Harrismith to that effect.

2.4 Methods of Privatisation

While no single definition of Privatisation exists, the process is generally understood as the sale of state-owned business to entities other than the state. The nations typically adopt one of the two methods of privatisation: an aggressive, big bang approach or gradualist, incremental approach, (Nicolas, 1999).

The White Paper on Privatisation (McGregor, 1987) identifies twelve methods of privatisation, namely:

2.4.1 The Sale of Public Sector Enterprises

The main characteristic of this method is that the public sector does not retain any further responsibility in respect of those assets, services, or activities and that their continuation, scope and price after the sale will be subject to market mechanism.

2.4.2 Partnerships

In instances where it would be unacceptable to transfer an existing state enterprise to the private sector, or where the nature and extent of the new enterprise will require state involvement; such enterprise could in appropriate circumstances be managed by partnership between the state and the private sector. The way in which partnership could be structured would probably differ from case to case and could include the following:

- The acquisition of shares by the private sector in existing or new State undertakings, but with public institution, as an interim arrangement, retaining its share holding until such time as full ownership can be transferred to the private sector
- The acquisition of shares by the private sector in existing or new State in which public institution maintains a permanent involvement.
- The phasing out of the shareholding by the public institution in undertakings as and when it has fulfilled its responsibilities from a development point of view.

2.4.3 Leasing of Business Rights

This means that the state does not entirely or partially transfers ownership of an asset but allows the private sector, for a consideration, to use the facility to conduct a business for its own account.

2.4.4 Contracting Out

The Government accepts that the private sector can undertake public services or activities on its behalf for a consideration. However, in such cases public sector remains responsible for the services and activities.

Rehfuss (1989) contends that contracting out government services is becoming increasingly popular at all levels of government. A private sector contractor is expected to bring cost effectiveness, flexibility, responsiveness and control.

The authors supports the notion of contracting out even social services such as welfare programmes but emphasise that contracting out should only be undertaken when cost savings will arise, technological changes will emanate and service delivery can be monitored or regulated. Contracting out emergency services is not recommended. Even within the management contract agreement fraternal, the private entity with which

management contract has been entered into can still contract out other services, for example, in the case of Johannesburg Water (Pty) Ltd, meter reading functions are further contracted out to other private entities such as African Meter Readers (Pty) Ltd.

2.4.5 Concessions

A concession is a contractual arrangement whereby, in return for a negotiated fee, a selected private operator is awarded a license to provide specified services over a certain period of time. Ownership of the principal assets remains with the private firm. Concessions are normally awarded following a competitive tendering process. The concession agreement sets out the rights and obligations of the service provider. This method is well suited to parts or all of an enterprise with some or all of the following characteristics: provides services that are economically and socially important and need significant improvement; is large and usually enjoys a monopoly position; is politically and/or practically difficult to sell; and is in need of investment capital. Concessions have been awarded in the case of public toilets in Arusha (Levine, 1994).

2.4.6 Commercialisation

The city authority forms a company wholly owned by it. The transfer of shares is restricted. The Board of Directors consists of Council and consumer representatives, the government and other stakeholders. The ownership of assets, regulation of tariffs and quality control will at all times remain vested in the municipal authority, (Moyo, 1995).

2.4.7 Franchise

The city authority awards a finite-term zonal monopoly to a private firm for the delivery of service. The award is made after a competitive qualification process. The private firm pays a license fee to cover the government's costs of monitoring. The private firm recovers its costs and profits through direct charges to the households and establishments

2.4.11 Shifting of Responsibilities

This is a situation where services which were once nationalised are re-allocated to the former owners or to a Community Based Organisation (CBO). A number of schools and health facilities in the European and Eastern African regions which were nationalised in the 1970s have been de-nationalized and returned to the former owners. Shifting of responsibilities has also occurred in the local areas where CBOs have been established and assigned service provision duties. A good example is the CBO involved in the construction of drainage channels and road resurfacing in Hanna Nassif area in Dar es Salaam (Moyo, 1995).

2.4.12 Management Contract

A management contract places a municipal service under private management for a specified period of time, for which the contractor is paid a fee. The fee may be based partly on performance. The private manager has extensive autonomy, as set out in the contract. Common municipal services that represent this method of privatisation are solid waste management, public toilets, parking lots and water services.

According to Vuylstekke (1988); in terms of management contract, a private sector operator is contracted to exercise full management and operational control of public enterprise. This means that operational responsibility for running public projects vests in the private sector whereas ownership remains with the state.

Vuylstekke (1988) further provides ample evidence of the Privatisation methods. For example, a sale of the shares or the assets of the public enterprise, fragmentation of the public enterprise into several entities to be privatised separately, a management or employee buy-out and a lease of the public enterprise by a private sector operator.

that are served. The City authority provides control over the tariff charged to the consumer. Franchising has been applied in the privatisation of solid waste management in the city of Dar es Salaam (Moyo, 1995).

2.4.8 Private Enterprise/Entrepreneurship

The city authority freely allows qualified private firms to compete for service delivery. In open competition, individual households and establishments make private arrangements with individuals firms for service delivery. No firm holds a zonal monopoly, and any number of firms may compete within the same zone. In open competition, the City Council's role is to license, monitor, and as needed, sanction private firms. The costs of doing business are directly billed by the private firms to their customers.

2.4.9 Open Competition

This is a form of privatisation which takes place through the provision of licenses to private firms to provide municipal services which are also provided by the Council, such as public transport (e.g. dalla dallas), health services like dispensaries, health centres, pharmaceutical shops and hospitals.

2.4.10 Compulsory Competitive Tendering

Where through force of legislation the city council has opened defined types of work to external competition and awarded contracts on merit. Compulsory competitive tendering has occurred in the privatisation of solid waste collection and disposal in the city of Dar es Salaam where a number of private firms bid for the award of contract of providing this service, which was otherwise being solely carried out by the Dar es Salaam City Council.

Ghai and Choong (1988) state that the preference for management contracts are important ways for public enterprise to acquire management and technical skills necessary for the establishment and operation of the institution without government loss of ownership or control. The authors provide much detail on the nature of management contracts and their scope and highlight their usefulness in developing countries.

In Dar es Salaam for example, management contract has been appointed to private firms to run parking lots within the City of Dar es Salaam (Moyo, 1995).

An example of management contract form of privatisation is the formation of Johannesburg Water (Pty) Ltd for the purpose of providing water and sanitation service to the public at large within the Johannesburg boundaries from Midrand to Vereeniging. The City of Johannesburg is the major shareholder to Johannesburg Water holding over 80% of the shares. Further example is the R1 billion Maputo N4 Maputo toll road which was built and financed by the private sector which operates it for a defined concession period. Further examples of management contracts are the sole concession granted to Transnet's Metro-rail division to operate and maintain commuter services until 2001. Final example is that of City Power and Pikitup whereby the City of Johannesburg entered into a management contracts with both City Power and Pikitup for the provision and maintenance of electricity power issues and waste management respectively within the boundaries of Johannesburg, (Graham et al., 2002)

Whitfield (1992) sums up the above methods by listing lists the following activities which can be characterised as forms of privatisation:

- Modelling organisation of public bodies of private firms;
- Increasing use of business criteria and values;
- Setting up internal markets within public services;
- Withdrawal or reduction of public services;
- Introduction of vouchers and credits;
- Contracting out to private companies;
- Reducing or eliminating state control over development;

- Removing controls to allow private firms to compete to supply public services.

Newman et al., (1996) submit that there are significant social benefits which can flow from public private partnerships and the arrangement is ideologically neutral and thus more appealing to organised Labour than change of ownership.

Rondinelli and Iacono (1996) set out various methods of privatisation and guidelines for managing it. Contracting with private companies is one of the methods detailed. This can arguably be referred to as outsourcing.

2.5 Characteristics of Privatisation

There are several major forces or pressures that have been identified to be behind privatisation movement (Savas, 1990 and Martin, 1993). These factors have been classified as follows:

- *Pragmatic*- the goal of pragmatism is better government, in the sense of more cost effective one. The reasoning behind this is that prudent Privatisation lead to more cost-effective public service. It saves the state a fortune in labour costs, medical aid and pension costs.
- *Ideological* - The goal of those who approach the matter ideologically is less government, one that plays a role vis-à-vis private institutions. The reasoning behind this is that Government is too big, too powerful, and too intrusive to people's lives and therefore is a danger to democracy. Government's decision are political, thus are inherently less trustworthy than free market decisions.
- *Commercial* - The goal of commercial interests is to get business by having more of government spending redirected toward them. The reasoning behind this is that Government spending is a large part of the economy; more of it can and should be

directed to ward private firms. State-owned enterprises can be put to better use by the private sector.

- *Populist* - the goal of populist is to achieve better society by giving people greater power to satisfy their common needs while diminishing that of large public and private bureaucracies. People should have more choice in public services. They should be empowered to define and address common needs, and to establish sense of community by relying more on the family, neighbourhood, church and ethnic and voluntary associations and less on distant bureaucratic structures

2.6 Service Quality

2.6.1 Introduction

All the authors on the above Privatisation issue generally have consensus that one of the most important objectives of Privatisation was to improve Customer service Quality. This section defines what service quality is and goes further to elaborate on models suggested by authors in measuring service quality.

2.6.2 Service Quality Defined

Service quality is a concept that has aroused considerable interest and debate in the research literature because of the difficulties in both defining it and measuring it with no overall consensus emerging on either (Wisniewski, 2001)

There are a number of different "definitions" as to what is meant by service quality. One that is commonly used defines service quality as the extent to which a service meets customers' needs or expectations (Lewis and Mitchell, 1990; Dotchin and Oakland, 1994a; Asubonteng *et al.*, 1996; Wisniewski and Donnelly, 1996). Service quality can thus be defined as the difference between customer expectations of service and perceived service. If expectations are greater than performance, then perceived quality is less than satisfactory and hence customer dissatisfaction occurs (Parasuraman *et al.*, 1985; Lewis and Mitchell, 1990).

Zeithaml (1988) defines quality as superiority or excellence, and distinguishes between objective and perceived quality:

Objective quality refers to measurable and verifiable superiority on some predetermined ideal standard or standards.

Perceived quality on the other hand is defined as the consumer's judgment of the superiority or excellence of the product.

Garvin (1988) concludes that quality concept is based on five perspectives, namely:

- The transcendental view of quality is synonymous with innate excellence; mark of uncompromising standards and with high achievement.
- The product-based approach sees quality as a precise and measurable variable.
- The user-based definition start with the premise that quality lies in the eyes of shareholder, they equate quality with maximum satisfaction.
- The manufacturing-based approach, in contrast, is supply-oriented and is primarily concerned with the engineering and manufacturing practices.
- Value-based definitions define quality in terms of value and price.

Lovelock (1991) confirms Garvin's view of quality but points out that these are drawn from the products and operational sphere of quality definitions.

Zeithaml et al., (1990) put forward two definitions of service quality. They define service quality, as perceived by customers. Both definitions are based on anecdotal evidence gleaned from interviews during their exploratory research.

Service quality is defined firstly as "...meeting or exceeding what customers expect from the service" (p.18). Later the authors define the concept formally as "... the extent of discrepancy between customers expectations or desires and perceptions" (P.19). This definition of service quality has attracted considerable criticisms mentioned above. The attributes and factors are defined, although ambiguously at times (Teas, 1993), but Zeithaml et al.,'s (1990) definition does not really give a solid foundation on which to build service quality theory and models.

Armistead and Clark (1992), forward a number of blanket definitions and support the British Standards definition (BS4778): “The totality of features and characteristics of a product or service that bear on its ability to meet stated or implied needs.”

Holbrook (1994) elaborates on the definitional difficulty on the quality concept “...I believe it would be fair to say that the issues concerning the nature of product and service quality currently wallow in the sea”. Holbrook (1994) then proceeds to define “value” from an axiological perspective but offers no definition of quality.

Brown *et al.*, (1994) state that: “The single most researched area in services marketing to date is service quality” The importance of quality for service firms is obvious (Lovelock, 1991), as poor quality would place a firm at a competitive disadvantage. Two aspects mentioned above complicate quality of service environment:

- Firstly, the *heterogeneity* aspect poses a potential problem, because services are performances, it is difficult to ensure consistent at all times (Zeithaml *et al.*, 1985).
- Secondly, the *Perishability* aspect of services becomes problematic when there is significant variability in demand (Kotler, 2000). During peak demand times, it is not always possible for the service provider to render the same quality as during “normal” times (Armistead and Clarke, 1994).

Perceived service quality correlates positively with customer satisfaction and customer organisational commitment Kelly and Davis, (1994); Hallowell (1996) finds a positive significant relationship between customer relationship and customer loyalty. He also finds a positive relationship between customer loyalty and profitability in a banking environment.

From the above definitions and theories, it is clear that measuring service quality in a service orientated environment is very difficult thus it is important to identify the most suitable instrument in measuring customer service quality accurately. Historically most researchers looked at service quality from the goods point of view. Finally, only in the

late 80's an accurate model to measure customer service quality in the service-orientated environment was developed by the authors Parasuraman, Zeithaml and Berry (1985). This model is known as the GAPS Model. It was developed by a group of dedicated authors in an attempt to measure service quality in service orientated environment which the researchers always conveniently ignored as it was viewed to be the most difficult area to research. Lovelock (1991) confirms Garvin's view of quality but points out that these are drawn from the products and operational sphere of quality definitions:

2.6.3 The GAPS Model

Parasuraman, Zeithaml and Berry (1985) devised a conceptual model of service quality. This became known as the ***Gaps Model*** (Buttle, 1996). The model puts forward by the authors attempted to explain that failure in quality is multi-faceted which occurs because of one or more of the five *Gaps*. In their book, the authors elaborate on the causes, consequences and remedies for the different "Gaps" (Zeithaml et al.; 1990). The Model of Service quality Gaps was extended to seven major gaps in the service quality concept between 1992 and 2002. (ASI Quality Systems, 1992; Curry, 1999; Luk and Layton, 2002), the three important gaps, which are more associated with the external customers are Gap1, Gap5 and Gap6; since they have a direct relationship with customers.

The following diagram gives a summary of gaps as were identified by these authors:

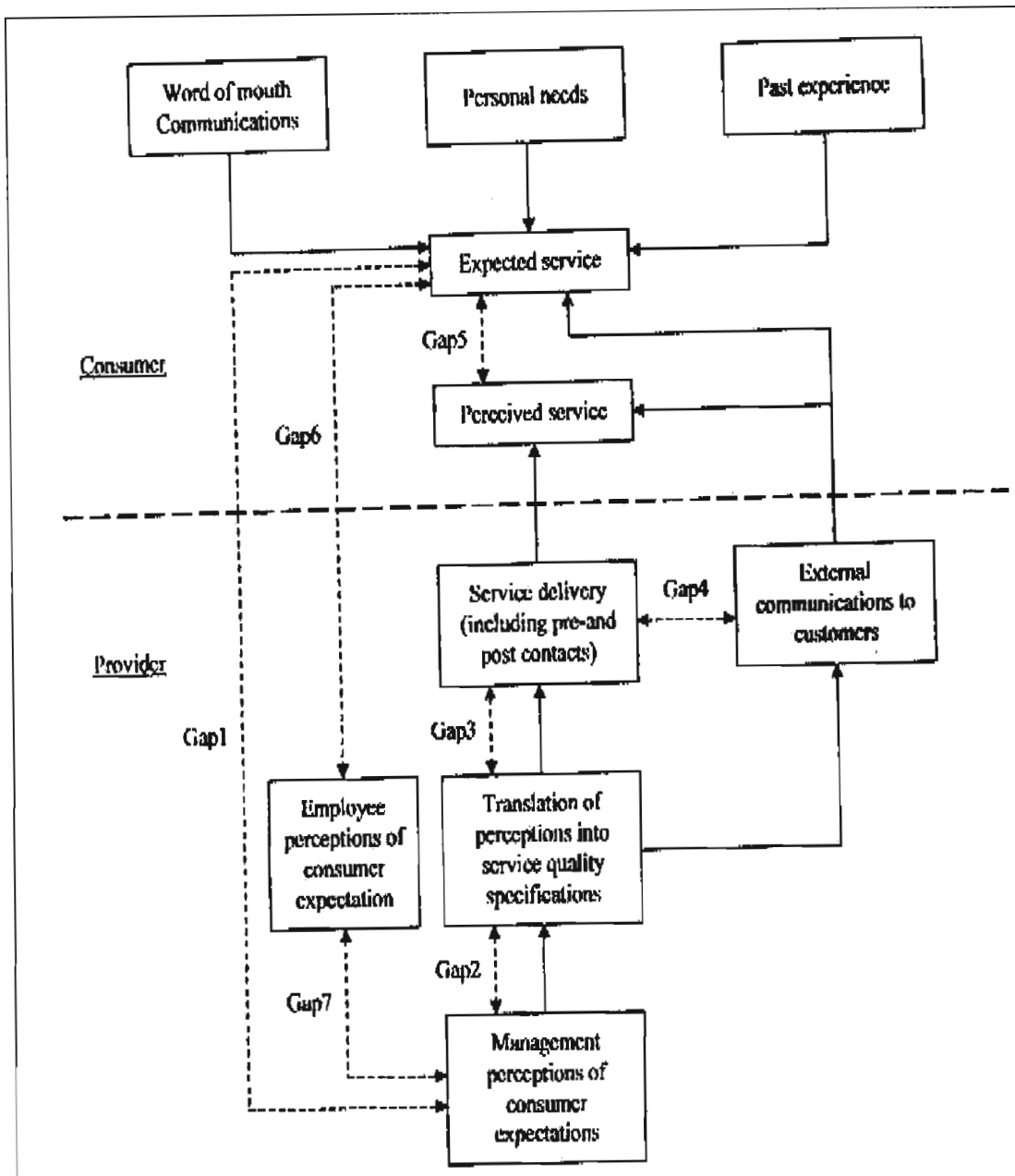


Figure 1 Conceptual model of service quality gaps: (Parasuraman et al, 1985; Zeithaml, et al, 1990, p.46; Curry, 1999, Luk and Layton, 2002)

2.6.3.1 Gap 1: Customers Expectations-Management Perceptions

A difference between what customers expects result in Gap 1. These problems are caused by insufficient marketing research, inadequate usage of marketing research findings, lack of communication between customers and management and between management and

contact employees. In order to reduce this Gap, the authors recommend the following actions:

- Doing Marketing Research.
- Using Marketing Research effectively.
- Increasing customer- management interaction.
- Improving upward communication from contact personnel to management.
- Reducing the number of organisational levels between contact personnel and management.

These solutions tie in well with the concept of “Market Orientation” (Narver and Slatter, 1990; Kohli and Jaworski, 1990 and Jaworski and Kohli, 1993)

Zeithaml *et al.*, (1990) attempted to measure gap 1 by administering SERVQUAL (see paragraph 2.6.4 below) to customer expectation component to managers and contact employees’ response of how they perceive the customers’ expectations.

2.6.3.2 Gap 2: The Wrong Service Quality Standards

The difference between the management perception and quality specification results in Gap 2. In this case, management may be fully aware of what customer expectations are, but are unable or unwilling to specify a service quality to match these expectations (Zeithaml *et al.*; 1990). Resource constraints, short-term profit orientation, management indifference or absence of goal setting may cause this gap.

In order to reduce the size of this Gap, Zeithaml *et al.*; (1990) recommend the following solutions:

- Increase commitment to quality both at top and middle management level.
- Influence perception of feasibility of meeting customer expectations.
- Stimulate innovative approaches to problem solving.

- Standardise the tasks using hard (information databases, automation of tasks and scheduling delivery systems) and soft technology (changing work processes).
- Setting appropriate service quality goals that are challenging but realistic.

The authors measured this gap using an instrument that was administered to managers and contact employees. However, they provided no link between the antecedents of gap 2 and the five and ten service dimension.

The concept of “Intellectual Dissemination” and “Response” of Kohli and Jaworski (1990) also ties in with Gap 2. Without using marketing research intelligence and acting upon it, (setting appropriate standards), it is impossible to close Gap 2.

2.6.3.3 Gap 3: The Service Performance Gap

The third Gap is caused by a discrepancy between the service quality specifications and the actual service delivery. This is in fact simply non-conformance to specification. The Table below lists seven contributing factors to Gap 3 (Zeithaml *et al.*, 1990)

Factors	Attributes
Role ambiguity	The extent to which employees are certain about what managers or supervisors expect from them and how to satisfy those expectations
Role Conflict	The extent to which employees perceive that they cannot satisfy all the demands of all individuals they must serve
Employee- job benefit	The match between the skill of employees and their jobs
Technology-job fit	The Appropriateness of the tools and technology that employees use to perform their jobs
Supervisory Control systems	The appropriateness of the evaluation and reward systems
Perceives Control	The extent to which employees perceive that they can act flexibly rather than by rote providing services
Team work	The extent to which employees and managers pull together for a common goal.

Table 1 Factors contributing to Gap 3: Zeithaml *et al.*, 1990, pp 92-93

Recommended solutions to this Gap include providing role clarity, eliminating role conflict, improving employee technology job fit, measuring and rewarding service performance, empowering employees and building teamwork.

Hartline and Ferrel (1996) conducted an empirical study into management of customer contact employees (see, 2.6.7 below). Some of the variables listed in Table 1 above were investigated confirming Zeithaml *et al.*'s (1990) assessment. Although non-conformance should be reasonably easy to measure if there are well-defined standards and procedures, Zeithaml *et al.*, (1990) only measured management and employees perception of the gap and non-conformance.

2.6.3.4 Gap 4: Service Quality versus External Communication Gap

The fourth Gap results from external communications (which contributes to shaping customer expectations) not being congruent with actual service delivery. Causes of this Gap are inadequate horizontal communication and propensity to over promise.

According to Zeithaml *et al.*, (1990), possible solutions to this Gap are to open channels of communications between advertising, sales, human resources, marketing and operations and developing appropriate and effective communications with regard to service quality. The authors also measured the perceptions of management and employees of this Gap.

2.6.3.5 Gap 5: Expected Service – Perceived Service

These four Gaps together result in the fifth Gap, which is the difference between expected service and perceived service. This refers to the discrepancy between customer expectations and their perceptions of the service delivered. It arises as a result of the influences exerted from the customer side and the shortfalls (gaps) on the part of the service provider. In this case, customer expectations are influenced by the extent of personal needs, word of mouth recommendation and past service experiences. Therefore, actual service delivery needs to be coordinated with external communications, thus narrowing Gap 4 and hence favourably affecting Gap 5.

2.6.3.6 Gap6: The Discrepancy between Customer Expectations and Employees' Perceptions:

Over the years since 1985 a number of offers attempted to improve the Gaps Model. Eventually the gaps increased from Parasuraman *et al.*, 's (1985) original five Gaps to Seven Gaps. Gap 6 arises as a result of the differences in the understanding of customer expectations by front-line service providers.

2.3.6.7 Gap7: The Discrepancy between Employee's Perceptions and Management Perceptions:

This Gap arise as a result of difference in understanding between managers and service providers

According to Brown and Bond (1995), "the gap model is one of the best received and most heuristically valuable contributions to the services literature". The model identifies seven key discrepancies or gaps relating to managerial perceptions of service quality, and tasks associated with service delivery to customers. The first six gaps (Gap 1, Gap 2, Gap 3, Gap 4, Gap 6 and Gap 7) are identified as functions of the way in which service is delivered, whereas Gap 5 pertains to the customer and as such is considered to be the true measure of service quality. The Gap on which the SERVQUAL methodology has influence is Gap 5. In the following, the SERVQUAL approach is demonstrated below

2.6.4 SERVQUAL

The SERVQUAL Methodology has its influence from Gap 5 of the Gaps Model as discussed above. Clearly, from a Best Value perspective the measurement of service quality in the service sector should take into account customer expectations of service as well as perceptions of service (Shahin, 2004.). However, as Robinson (1999) concludes:

"It is apparent that there is little consensus of opinion and much disagreement about how to measure service quality". The SERVQUAL model is one of extensively applied service quality measurement model developed by Parasuraman *et al.*, (1985, 1986, 1988, 1991, 1993, 1994; Zeithaml *et al.*; 1990). SERVQUAL as the most often used approach for measuring service quality has been to compare customers' expectations before a service encounter and their perceptions of the actual service delivered (Gronroos, 1982; Lewis and Booms, 1983 and Parasuraman *et al.*, 1985).

The SERVQUAL instrument has been the predominant method used to measure consumers' perceptions of service quality. It has five generic dimensions or factors and are stated as follows (Van Iwaarden *et al.*, 2003):

These Authors operationalised the Gaps model with the SERVQUAL instrument. The instrument is structured using 22-paired questions. One question on each pair measures the expectation of specific service quality. The Expectations minus Perceptions cumulative score therefore should give overall measurement of service quality. These service attributes were originally structure into ten factors as illustrated in Table 2 below:

DIMENSIONS	DEFINITION
Tangibles	Appearance of Physical Facilities
Reliability	Ability to perform the promised service dependably and accurately
Responsiveness	Willingness to assist customers and provide prompt service
Competence	Possession of required skills and knowledge to perform the service
Courtesy	Politeness, respect, consideration and friendliness of contact personnel
Credibility	Trustworthiness, Believability, honesty of service provider
Security	Freedom from danger risk or doubt
Access	Approachability and ease of contact
Communications	Keeping customers informed in a language that they understand and listen to them
Understanding the Customer	Making the effort to know customers and their needs

Table 2 Original Ten Dimensions of service Quality: Zeithaml et al, 1990, p21-22

The above questions formed part of the questionnaires that were designed for the research and which forms part of the research methodology in this research paper.

The authors later refined the scale to five dimensions (see table 3 below) along with certain other refinements. The refinements made were rephrasing the questions of the expectation section to unrealistically reduce high expectation scores. Furthermore, the negatively worded questions were changed to positive wording. In addition, two questions were substituted by two new items (Shahin, 2004).

Dimensions	Factors
Reliability	Ability to perform the promised service dependably and accurately.
Assurance	Knowledge and courtesy of employees and their ability to convey trust and confidence (including competence, courtesy, credibility and security)
Tangibles	Appearance of Physical Facilities, equipment, personnel and communication materials
Empathy	Carrying individualised attention the firm provides its customers (including access, communication, understanding the customer)
Responsiveness	Willingness to help customers and provide prompt service

Table 3 Revised Service Quality Dimensions: Zeithaml et al; 1990, p-.26

Buttle (1996) used the mnemonic Rater as an acronym for these dimensions. Zeithaml et al., (1990) claims that the five dimensions were generally stable across industries. However, some authors have claimed they are not stable in all situations (Shanin, 2004).

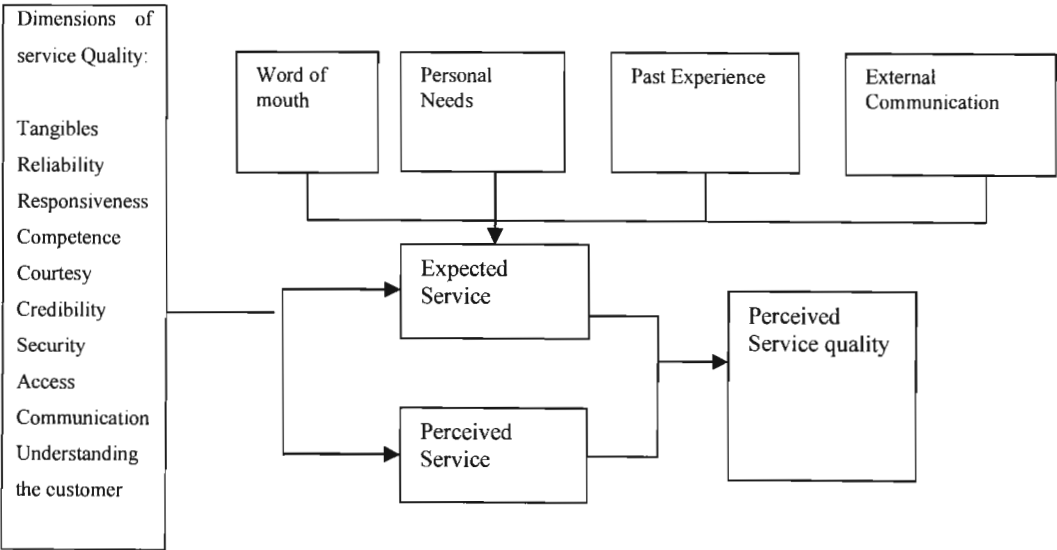


Figure 2 Summary of Customer Assessment of Service Quality - Zeithaml et al, 1990, p.23

The above focused on customer perceptions of quality service. In order to achieve distinctive position and sustainable advantage, the executives need to monitor customer

perceptions of service quality, identify the cause of service quality shortfalls and take appropriate action to improve the quality of service. Executive's perceptions of service quality from the customer's perspectives need to be identified.

The SERVQUAL instrument is the focus of considerable controversy and an academic debate spanning more than a decade. Nonetheless SERVQUAL is still regarded as the best instrument available to measure service quality and has been used regularly by other authors as well despite its criticism (Zeithaml, Berry and Parasuraman, 1996 and Westbrook and Peterson, 1998). The same authors used SERVQUAL in the late 90's as part of the extended research into behavioural consequences of service quality (Zeithaml *et al.*, 1996)

The instrument has been criticised on conceptual and operational issues by a number of researchers (Teas, 1993, 1994; De Sarbo, Huff, Rollandelli and Choi, 1994; Cronin and Taylor, 1992, 1994; Johnston, 1995; Lam and Woo, 1997 and Wright and Kearns, 1998).

Spreng & Olshacsky (1993) also criticise SERVQUAL based on the disconfirmation principle, suggesting that the consumer make a post-purchase comparison between the pre-purchase expectations and performance received. If a customer's perception matched his or her expectations, then the customer is satisfied with the service. If the experience was better than expected, then the perceived service quality is high and the customer is delighted. However, if the experience did not meet expectations then the service quality is perceived to be poor and the customer is dissatisfied (Johnston, 1995).

Teas (1993, 1994) for instance questions the theoretical justification of using expectation in the measurement of perceived quality, highlights a certain conceptual definition ambiguity and questions the usefulness of the evaluated performance probability component. If expectation is low and perceived actual quality is also low then the difference score will be closer to zero (0) which is not a true reflection of service quality. This has been referred to as Bad service Paradox (Gronross as cited in Buttle, 1996) this is the link between perceived quality and customer dis/satisfaction.

De Sarbo *et al.*, (1994) acknowledge the problem of Expectations vs. Perceptions and suggest a Conjoint Analysis approach to overcome the shortcomings in SERVQUAL.

Johnson and Mathews (1997) studied the effect of experience on expectations. They found that experience plays a role in the expectations of customers. This also implies that expectations are not necessarily the ideal items for measurement of service quality.

Cronin and Taylor (1992) propose to measure only performance in measuring service quality, an instrument SERVPERF and found that performance-minus-expectations is an inappropriate measurement of service quality.

Lam and Woo (1997) performed longitudinal replication research to test SERVQUAL's long and short range stability, which affect its reliability. The authors found that SERVQUAL has a high degree of internal consistency but that the instrument is not temporally stable. These findings cast doubt as to the usefulness of SERVQUAL with regard to validity and reliability.

Wright and Kearns (1998) direct their criticism mainly at marketing research in general and use SERVQUAL as an example. The authors assert that the debate around SERVQUAL has not resulted in any generalisable patterns emerging from this research and state that: "The result is proliferation of suggestions for modifications through replication in different circumstances. Progress thus far in this area has been limited to falsifying the original formulation and suggesting a number of largely untested replacements" The authors also pointed out that the instrument lacks consistency across different industries, limiting its general applicability.

Johnston's (1995) research finds that service quality attributes to satisfiers, dissatisfiers or both. Using a modification of SERVQUAL increased to 18 dimensions, the author found that only responsiveness is a significant satisfier and dissatisfier.

Buttle (1996) provides a comprehensive review of the SERVQUAL debate, detailing each of the criticisms raised in the literature. Buttle (1996) distinguishes between theoretical and operational criticisms. Regarding theoretical issues, the author lists paradigmatic objections, validity of the Gaps Model, process orientation and the dimensionality of the instrument. Operational criticisms include the following:

- The expectation term is polysemic;
- Inadequate items to capture the variability within each dimension;
- Moments of truth;
- Polarity;
- Scale points;
- Boredom and confusion resulting from two administrations;
- Variance extracted.

SERVQUAL instability in terms of number of dimensions has attracted a great deal of criticism (Buttle, 1996). A weakness that is not mentioned in the literature reviewed is that SERVQUAL only measures Gap 5. The other six Gaps need to be measured because individual Gap's diagnostic value could be invaluable to management in terms of corrective action. Zeithaml *et al.*, (1990) propose strategies to remedy each of the "Gaps" in the model. The instrument however gives management information of perceived quality shortcomings at an aggregate level, or in terms of the five (or ten) dimensions. It appears that the instrument that Zeithaml *et al.*, (1990) used to measure the other gaps have not yet been subjected to thorough research.

Rosen & Karwan (1994) examined the relative importance of the different service quality dimensions, using six dimension variant of SERVQUAL. They state that coefficients are meaningful as relative weights only if they are indeed also statistically different from another (discriminant validity). In their study, the authors do not find this to be the case. They find that the relative importance, although significant, is statistically weak in support of differences in importance. Several results are counter to Parasuraman *et al.*'s, (1988) claim of consistency in relative importance of the dimensions.

Similarly, Chen, Gupta and Rom find that relative importance of the dimensions is not consistent across different industries and that the perceived price and perceived service quality are service specific.

Although the SERVQUAL authors defended their position against many of the criticisms in a later paper (Parasuraman, Zeithaml and Berry, 1994), they acknowledge certain definitional weakness and problems that could only be resolved further by research.

It appears as the Jury is still out regarding the validity, consistency and usefulness of SERVQUAL.

2.6.5 QUALITYQ

Badler (2004), introduced quality measuring instrument known as QUALITYQ. He defined quality as the way of life from an individual perspective. He states that there are seven skills required to transform one into a quality person, namely, communication, empathy and understanding, listening, presentation, negotiation, analytical and knowledge. Using the QUALITYQ concept, Badler (2004) indicates that one needs to understand the concept in order to meet and exceeds the customer expectations. The concept is broken down into variables to illustrate the following: Question, Understand, Action, Listen, Interact, Training, You and Question. He argued that once the service provider posses this concept in its entirety nothing can go wrong in managing to achieve and even exceeds customer expectations.

Badler (2004) went further, to say that there are ten steps that one needs to go through to win customers, these are: satisfy your customer, offer service that is fit for use, sell the product that has money back guarantee, action and feedback, treat your customers with dignity and respect, visible management, user friendly on line service, satisfaction surveys, loyalty reward programme and trends analysis of client information.

Although Badler's (2004) suggestion of ten-step approach can work well in a goods environment, it might be inappropriate in a service industry which is as monopolistic as Jwater. In this case, customers do not have a choice but to be serviced by Jwater, whether Jwater is delivering a good service or not. The only thing that the customers can do is to be vocal about their dissatisfaction with Jwater and referring their concerns to the relevant political authorities.

2.6.6 Other Service Quality Research

Due to the Inseparability and Perishability attributes of service (Zeithaml *et al.*, 1985), customers are delayed, or have to wait for service if demand exceeds capacity. The variability of demand makes it costly to invest in capacity to accommodate peak demand (Armistead and Clarke, 1994). Delays on the other hand affect perception of service quality negatively (Taylor, 1994).

There has been considerable research into improving capacity availability and service mechanism to cope with variable demand on an operational level (Armistead and Clarke, 1992, 1994) it has also been found that several factors can influence the customer's perception of the delay. Taylor, (1994), finds that four factors influence the affective responses of customers to delayed service which determines the perception of quality. More specifically, the author finds that the (1) stability of the cause of the delay (how frequently does the delay occur), (2) The perceived service provider control over the delay, (3) the degree of filled time and (4) the length of the delay. These four factors affect the feelings of uncertainty and anger in waiting customers, which in turn influence customer perception of service quality.

In further research, Taylor (1995) revealed that the perception of the length of the wait, and an overall service quality evaluation is influenced by "filled time". Increasing the mental activity of a person causes the person to become less aware of the passage of time. The wait therefore seems shorter (Taylor, 1995). Hui and Tse (1996) find that the information provided to waiting customers influences the service evaluation. The authors

found that the customer's perception of a long, short and intermediate wait is affected differently by the provision of no information, waiting duration and queue information.

2.6.7 Customer Satisfaction

Satisfied customers are more likely to continue their relationship with a firm and new customers are more expensive to obtain than keeping existing customers satisfied (Pieters, Koelemeijer and Roest, 1995). Nevertheless, many industries find that even if customers indicate satisfaction, they will still defect to competitors (Straus and Neuhauss, 1997). Customer satisfaction therefore does not guarantee customer loyalty.

Much research has dealt with the actual service encounter as the “moments of truths” (Brown *et al.*, 1994). The concept is that customers' perceptions of service encounters influence their evaluation of quality. The attention here has focused on the surroundings (Tangibles) and the contact employee's competence in dealing with customers. This research is unlikely to be applicable in services with low contact encounters.

Bitner, Booms and Tetrault (1990) used the Critical Incident Technique to determine the behaviours and circumstances that causes customers to distinguish between very satisfactory and very dissatisfactory incidents. The critical Incident technique involves the classification technique employing content analysis of stories and anecdotes. To qualify as critical incidents the episode should involve customer-employee interaction, the very satisfying or dissatisfying from the customer' point of view, be discreet and be sufficiently detailed to be visualised by the interviewer. The critical incident technique has a bias to extreme responses as only very satisfactory and very dissatisfying incidents are reached and recounted. Bitner *et al.*, (1990) find that the responses were classified into three broad groups, with three to five categories within each group:

1. Employee response to service delivery system failures.
2. Employee response to customer needs and requests.
3. Unprompted and solicited employee actions.

In another study Bitner, Booms and Mohr (1994) replicated the concept, but from the employee's perspective. The classification during this study yielded the same groups mentioned above as well as the fourth group "Problematic customer behaviour". The results of this research suggest that the front line employees can make significant difference in customer perception of service quality and satisfaction. Also customers are not always right and employees' capabilities should be developed towards dealing with difficult situations.

Bitner, Feranda, Hubert and Zeithaml (1997) also researched service encounters and found that if customers perceived the cause of service failure to be within the control of the service provider, and it was likely to occur again, they would be even more dissatisfied.

2.6.8 Internal Service Quality

Kotler (2000) graphically displays three types of marketing that occur within the service firm as a triangle.

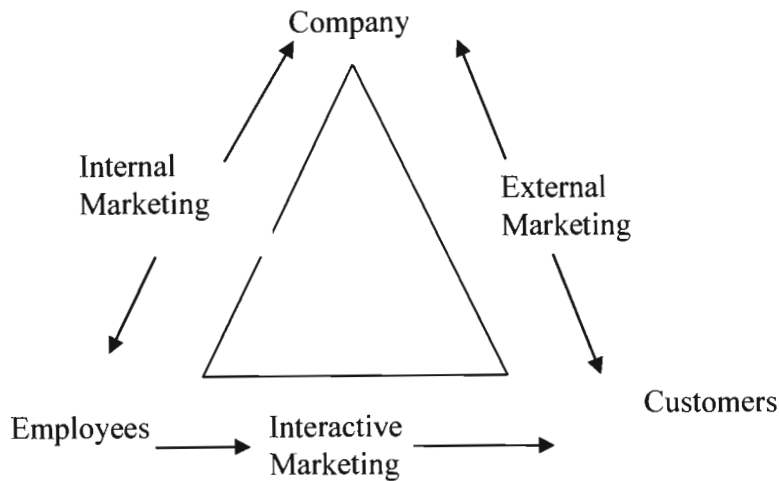


Figure 3: Three types of marketing in service industries:
Source: Kotler, 1997, p.473 and 2000, P.435.

In 1997 and later in 2000 Kotler goes on to explain that service firms do not only have the normal external marketing contact between the company and its customers, but also the firm's employees and the customer's integrative marketing and between the company and its employees internal marketing (Kotler, 1997 and 2000). The object of the internal marketing is the process of selling the concept of customer service to employees so that they internalise an appropriate set of values (Varey, 1995).

A vital ingredient in the delivery of quality service is ensuring that the whole service delivery system functions optimally, hence the concept of Internal Marketing or internal customer vs. internal service provider relationship (Reynoso and Moores, 1995).

Reynoso and Moores (1995) designed a scale to measure internal service quality. Their research yielded a construct that covers ten dimensions of internal service. These ten dimensions somewhat correspond to Parasuraman et al.,'s (1995) service dimensions as listed in Table 2 above.

DIMENSION	FACTORS
Helpfulness	The willingness for the unit to help in a courteous approachable manner
Promptness	The ability to provide the service promptly by responding rapidly to the service requests
Communication	To keep the internal customer informed and consult him about progress, problems or changes, which may influence his activities
Tangibles	The conditions and physical appearance of facilities, equipment, materials and written information of the unit
Professionalism	The skills, knowledge and expertise which members of the unit requires to provide the service and to give advice
Reliability	The ability of the unit to provide the internal service required on time and correctly, including the provisions of accurate information
Confidentiality	The unit's handling of confidential information and delicate situations
Flexibility	The willingness of the unit to respond flexibility to unexpected situations
Preparedness	The internal organisation and the resources required by the unit to be able to provide the service
Consideration	The understanding, recognition, trust and honesty of the unit toward the internal customer

Table 4 Internal Service Dimensions

Source: Reynoso & Moores, 1995

The concept of Internal Customer Orientation was criticised by a number of authors including Reynoso and Moores (1995) themselves stating that the concept is not enough to enable the internal customers to implement the programmes that will change behaviours to obtain results.

Varey (1995) conclude by citing a number of research results that indicate that the concept of internal customer orientation is rare discrete formal activity, embryonic, descriptive and prescriptive and that firms viewed the concept as motivational campaigns by Human Resources Specialists. Internal marketing is like management for quality, still largely operations-led and few organisations are truly market-led or customer-led. From the above, one can deduce that internal customer orientation at present is still the antithesis of what is prescribed by the authors cited above. Internal Customer Relationships are therefore noted more for lack of helpfulness, communication, promptness and other characteristics listed in table 4 above.

2.7 Conclusion

The authors of the literature reviewed above are clearly in agreement that the purpose of privatisation is among other things to improve the customer service quality to be provided by the privatised entity which seems to be better than the quality of service provided by the State Owned entities. Various models that seek to evaluate customer service quality were discussed. These models indicate that if an organisation needs to get their customer service quality right the first time, it has to ensure that it follows the recommendations suggested by all these models.

The next chapter, Chapter 3 is an overview of Johannesburg Water (Pty) Ltd, a private company which is a product of privatisation of municipal water services, an entity created with a view of improving customer service quality.

CHAPTER THREE: JOHANNESBURG WATER (PTY) LTD) COMPANY SYNOPSIS

3.1 Introduction

This chapter gives an overview of Johannesburg Water (Pty) Ltd (“Jwater”). This utility company was formed as part of the Privatisation process discussed in Chapter 2 above, namely, the Management Contract Method of Privatisation. The main purpose for the formation of Jwater was to divest the City of Johannesburg (“COJ”) of its functions of water and sanitation delivery service for initially some of the Private Corporate and Institutional customers and eventually the whole customer base including individual customers within the boundaries of COJ running from Midrand in the North, Jukskei River in the East, Roodepoort in the west to Orange Farm in the South.

Johannesburg Water Pty (Ltd) was established in January 2001 as an independent company, the City of Johannesburg being the sole shareholder. The company formation is an outcome of the iGoli 2002 transformation plan embarked on by the former Greater Johannesburg Metropolitan Council (“GJMC”) Johannesburg Water (JW) has been mandated with the responsibility of providing water and sanitation to three million residents of the City of Johannesburg. Annual turnover exceeded R1, 6 billion. Services will be provided along business principles, ensuring customer satisfaction and cost recovery. Residents throughout the city can look forward to improving levels of service and additional water connections in areas where they do not exist, (Johannesburg water, 2003).

As a result of iGoli 2002 plan, JW was established by the COJ as a separate arms-length private utility company with a mandate to deliver water and wastewater services to the residents of the City. It is wholly owned by the COJ which is the major shareholder. The rationale behind the formation of a number of private utilities including JW was to

introduce greater efficiency, professionalism, customer orientation and service delivery. (Johannesburg Water, 2003).

The City as part of the reason for the iGoli 2002 Plan, believed that the provision of water and waste water services was characterised by fragmentation and duplication in many areas such as personnel, billing systems and the like, poor controls and lack of customer focus. The City believed that separating of the roles of governance and delivery and managing water services along business principles there would be greater accountability. JW is a complex hybrid, with one foot in the private sector and the other in the public sector, tilting one way or the other depending on the whole range of complex and fluctuating factors. There is so much confusion that even JW's management denies that JW is a private company and insists that JW is a public Utility despite the fact that it is a private company registered and incorporated in terms of Companies Act. By its legal nature, JW seems to be in a profit sharing agreement with COJ no matter what the proponents may argue it to be.

3.2 Johannesburg Water (Pty) Ltd's Vision

To become the leading water utility in the Republic of South Africa.

3.3 Johannesburg Water (Pty) Ltd's Mission Statement

JW's mission and objectives include among other things the following:

- To provide all people of Johannesburg with access to safe and affordable water sanitation service.
- To be environmentally compliant and committed to high water and wastewater quality standards.
- To be customer focused, responsive and efficient in all our operations.
- Meet social obligations to the poor and the marginalized communities of Johannesburg and improve service delivery to these areas.

- Demonstrate responsibility for the introduction of a lifeline tariff for the poor.
- To be an employer of choice, which individuals are able to develop their potential and growth in their careers.

3.4 Background on Johannesburg Water (Pty) Ltd

On 9 October 2000, the Transformation Legotla approved the incorporation of the water and sanitation utility as a Proprietary Limited company under the name of Johannesburg Water (Pty) Ltd, (JW) and for its registration under the Companies Act. JW was formed in January 2001. It is responsible for the provision of water and sanitation services to areas stretching from Orange Farm in the South, Midrand in the North, Roodepoort in the West and Alexander in the East, the administrative region Map is in the Appendices, (Appendix 6). JW buys bulk water from Rand Water at an annual cost of R950 million, accounting to 35% of JW's sales, which they distribute to some 550,000 domestic, commercial and industrial customers. Over three million people make use of their services daily. JW owns 86 reservoirs and 33 water towers. Rand Water is regulated by the Department of Water and Forestry (DWAF). Contrary to the understanding of the population at large, Jwater only service Juristic persons who are known as Top-Customers by their personality and not necessarily by their high consumption. Currently, Jwater does not service any private household residential customers in as far as billing these customers are concerned, but they do meter reading for some of COJ's regional areas as well as maintenance. These are still serviced by COJ directly, (Johannesburg Water, 2003).

After its incorporation on 12 January 2001, JW concluded a Sale of Business Agreement (SoB) with the City of Johannesburg Metropolitan Council (COJ). The SoB identifies JW as a private company with limited liability. This was a total sale of assets, namely: "accounts receivables", "the contracts", "fixed assets" and the "property" The purchase price was R1 600 000 000 000 (One Billion Six Hundred Million). Debtors outstanding for 90 days or more as at December 2000 would be added to the purchase price,

(Johannesburg water, 2003). Payment of the purchase price plus the debt would be made over a 30-year period, which is equivalent to the duration of the Service Delivery Agreement between JW and COJ. Interest is payable on the purchase price balance at nine percent per annum calculated on a simple rate of interest and payable annually in arrears, (Johannesburg water, 2003).

On the same date, January 12, 2001, the City of Johannesburg (COJ) and Johannesburg Water entered into a Service Delivery Agreement (SDA) as well. The agreement; amongst other things, states that “The Council is desirous of entering into a agreement with the Company in terms whereof the company will take over from the Council the water services provided by the Council to its customers as a going concern together with all such assets as the company may require in order to continue to operate the said services” (Johannesburg water, 2003).

The SDA basically endorses the SoB agreement and provide a general framework for service delivery which entails that JW must comply with all relevant legislation regarding minimum standards and other requirements in terms of the Water Services Act (WSA) such as preparing a water service development plan; (Johannesburg water, 2003).

In terms of the SDA, the Council further undertakes not to interfere with JW’s actions by acting in a manner that would result in the company to be in breach of Management Contract either as initially entered into or as amended from time to time. (Johannesburg water, 2003).

Johannesburg's water was corporatised in 2000 when JOWAM, a subsidiary of the France-based Suez conglomerate, won a bid to manage the utility along with Johannesburg Water, a publicly owned entity. (Johannesburg Water, 2003).

Under the agreement, JOWAM provides water services while Johannesburg Water manages billing and community tariff collections. But those who have asked for details

on the terms of the deal have been rebuffed and the argument has become both personal and high-profile (Harvey, 2003).

The Management contract was entered into between the Johannesburg Water Management Company (JOWAM) and JW. Although COJ also signed the agreement, it had no direct relationship with JOWAM. COJ merely signed the agreement as a sole shareholder and political authority (Harvey, 2003).

In February 2001, JW entered into a performance based Management Contract with JOWAM. The parties to the said contract were COJ, JW and JOWAM (made up of Northumbrian Water Group plc (51%), Water and sanitation services SA (Pty) Ltd (29%) and Suez Lyonnaise des Eaux (20%). The Contract expired in June 2006. The Contract allows JOWAM, the operator to take over the operations of the utility in all respects. The aim of the contract was to enable the operator to equip JW with necessary management and technical skills to eventually run the operation at the end of the contract. Initially there was thirteen JOWAM staff when the contract started with a view of reducing that number over time until towards the end of the contract there are only two staff members remaining (Harvey, 2003).

To assist the company in achieving these targets JW has signed a five-year management contract with the Johannesburg Water Management Company (JOWAM). This contract came into effect on 1 April 2001. The contract is a joint venture comprising Suez Lyonnaise Des Eaux (France), Northumbrian Water Company (UK) and Sanitation Services (RSA). (www.jwater.co.za/archives/documents-2006).

It will operate under the leadership of the JW board on a performance-based management contract. Under this 5-year contract, a team of thirteen people initially, reducing to two over time, will provide management and expertise in critical areas whilst the capacity of the company is being developed. JOWAM will assume operational risk under this performance-based contract and in practice fill various executive management functions within JW for periods ranging from 18 months to five years.

This type of contract is the type of management contract discussed in Chapter 1 under definitions i.e. a management contract whereby a private sector operator is contracted to exercise full management and operational control of public enterprise. This means that operational responsibility for running public projects vests in the private sector whereas ownership remains with the state (Vuylstekke, (1988).

Water management in cities like Johannesburg is part of a worldwide \$200 billion corporate industry. Whereas in the past, water provision was wholly handled in the public sector, private corporations are now encouraged to join public-private partnerships to help cash-strapped municipal authorities meet the public demand for water. But corporate participation brings corporate business practices.

Case Study of privatisation of water services, which is now provided by JW, highlights a situation where the private enterprise is created with a sole purpose of managing the water service business, i.e. water and sanitation, whereas the public enterprise remains the major stakeholder in this private enterprise. In the case of Johannesburg Water, the City of Johannesburg is the major shareholder, it retained the powers to regulate the tariffs to be applied on water and sanitation charges, it also retained powers to enact By-laws that regulate the water services. With the Department of Water Affairs (DWA) as the national regulator, JW has no power on its own without looking first to the Municipality and then to the Department of water Affairs. Thus in 2003 the Chief Executive officer of Johannesburg Water, Greg Segoneco made a statement whereby he denied that the company is trying to privatise water supply in Johannesburg, by virtue of the reasons set out above. ([www.jwater.co.za/archives/CEO's statements-2003](http://www.jwater.co.za/archives/CEO's%20statements-2003)).

Segoneco says Johannesburg Water is a public utility, wholly owned by the City of Johannesburg. "We have a mandate to deliver the best quality water at the lowest possible price to the consumers of Johannesburg. Operation Gcin'amanzi is proof that we are meeting this mandate by preventing massive losses and bring down the cost of water delivery."

Further, Segoneco says that “There is absolutely no truth in the argument that we are ‘privatising’ water delivery in Johannesburg,” says Segoneco. The City of Johannesburg – and, ultimately, the people of the city – have the final say in determining the water rates and tariffs”, (Johannesburg water, 2003).

In essence, the formation of JW and the management contract are two forms of partial privatisation which for the duration of the management contract are inseparably linked. The institutional essence of capitalism is sanctity of private property. Privatisation, in its many complex forms, extends the scope of operation of private sector into the public domain. This could be done in a variety of ways which do not amount to outright divestiture. The convenient argument of those who argue that corporatisation is not privatisation simply because the City still owns the assets is misleading and narrow in its definition.

3.5 Johannesburg Water (Pty) Ltd’s Services

Jwater is involved in a number of projects branded the water cycle such as: the Natural Cycle; System Cycle; Waste Cycle The other projects are: free essential water, The Mati I rihanyu / water is Life Meter Installation Project in Ivory Park, Midrand; Liaison Desk; Region 10,300 calls a day, G’cina Manzi Water Projects (Pre-paid Water Meters), Service Failures, Rapid Progress with New Water Project for Soweto etc. All these in the name of improved efficiency, performance and service delivery quality (www.jwater.co.za/projects-2004).

Johannesburg Water, together with the City of Johannesburg would from 1 July 2001, provide all households within the city of Johannesburg with 6000 litres of free essential water. This programme is part of the overall poverty alleviation campaign of the two institutions and is aimed at providing relief to the poorest of the poor, (Johannesburg water, 2003).

The Mati I rihanyu – Ivory Park People’s Project is an innovative water conservation project under Region 2 of the newly demarcated City of Johannesburg. The project is funded by Johannesburg Water (Pty) Ltd, a privately run public utility owned by the Metro. This is one of the first projects in South Africa to apply the tenets of efficient, affordable and sustainable water use, stipulated by the National Water Act, to improve water service provision and management at a local level, and in a relatively poor township community (Republic of South Africa, 1998).

Gcin’amanzi - The object of the project is to substantially reduce water wastage both on private properties and within the municipal water network. This will lead to savings of up to R158 million a year to the City of Johannesburg as well as a drastically reduced water and sanitation bill to individual households (<http://www.jwater.co.za/projects-2004>).

Jwater undertakes the functions of metering, billing collection for about 20,000 top commercial customers. The remaining customers are billed by the City’s Finance Department. However, Jwater will be assuming control of the functions over a period of time as per Sale of Business Agreement (Johannesburg water, 2003)

3.6 The Management

Jwater is headed by an executive director and governed by an independent Board of Directors, appointed by the City of Johannesburg as the major shareholder. The Board consists of eleven members, ten of whom are non-executives. The question arises, in which way is the board independent, when the Directors are appointed and can be removed by COJ, they are paid by COJ, JW’s business plans have to be approved by the COJ, COJ determines the tariffs for the JW, Loans by JW have to be approved by COJ. In fact, COJ has so much control that one has to ask the obvious question, was the formation of an externalised corporate utility necessary? A constant refrain in JW is that, “They (Council) must not try to run the company” (Johannesburg water, 2003).

The above vision, mission and objectives statement is clearly in line with the “SERVQUAL” – an instrument for measuring service quality, developed by Zeithaml *et al.*, (1990) discussed above in Chapter 2, namely the dimensions of evaluating service: tangibles, reliability, responsiveness, assurance and empathy. The key to delivering high-quality service is to balance customers’ expectations and perceptions and close the gaps between the two SERVQUAL principles help to identify where and how serious the gaps are. In attempting to close SERVQUAL gaps Jwater would benefit from understanding of internal (within-company) short-falls or gaps that might be responsible for external (customer perceived) short-falls.

According to Zeithaml *et al.*,’s (2000) Conceptual Model of Service Quality Framework, the internal short-falls/gaps, namely: discrepancy between customers’ expectations and management perceptions of those expectations (Gap 1); the discrepancy between management perceptions of customers’ expectations and service-quality specifications (Gap 2), discrepancy between service quality specifications and actual service delivery (Gap 3); discrepancy between actual service delivery and what is communicated to customers about it, should be linked to customer perceived short-falls (Gap 5) in the form of conceptual model of service quality, (Zeithaml, Parasuraman and Berry; 1990).

In this regard, JW is faced with a challenge of understanding customer wants and needs and then satisfying those needs with delivering quality service to the customers. In doing so, JW will be narrowing the internal shortfalls and thus closing the gap between the internal shortfalls and the external shortfalls of customer perception of its service quality.

JW has appointed Dynacon Technologies based in Randburg and Halcrow Management Sciences (the lead consultancy that ran the procurement process with the formation of the utility and this contract) in the UK to take responsibility for technical auditing of the contract. Price Waterhouse Coopers the company has centrally involved in the restructuring of the city through the adoption of the iGoli 2002 plan is responsible for the financial auditing. Although Dyacon and Halcrow also perform some financial auditing,

they are part-time (technical) auditors for JW. The fact that both Financial Auditors (Price Water House Coopers) and Technical Auditors (Dyacon and Halcrow) were both involved in the iGoli 2002 plan cast some doubt on the integrity and quality of these auditors (Johannesburg water, 2003)

Therefore, there is a great possibility and likelihood that auditing and monitoring may not be as effective and rigorous in such a potentially compromising situation and may raise questions about the efficacy and integrity of appointing auditing companies which were involved in iGoli 2002.

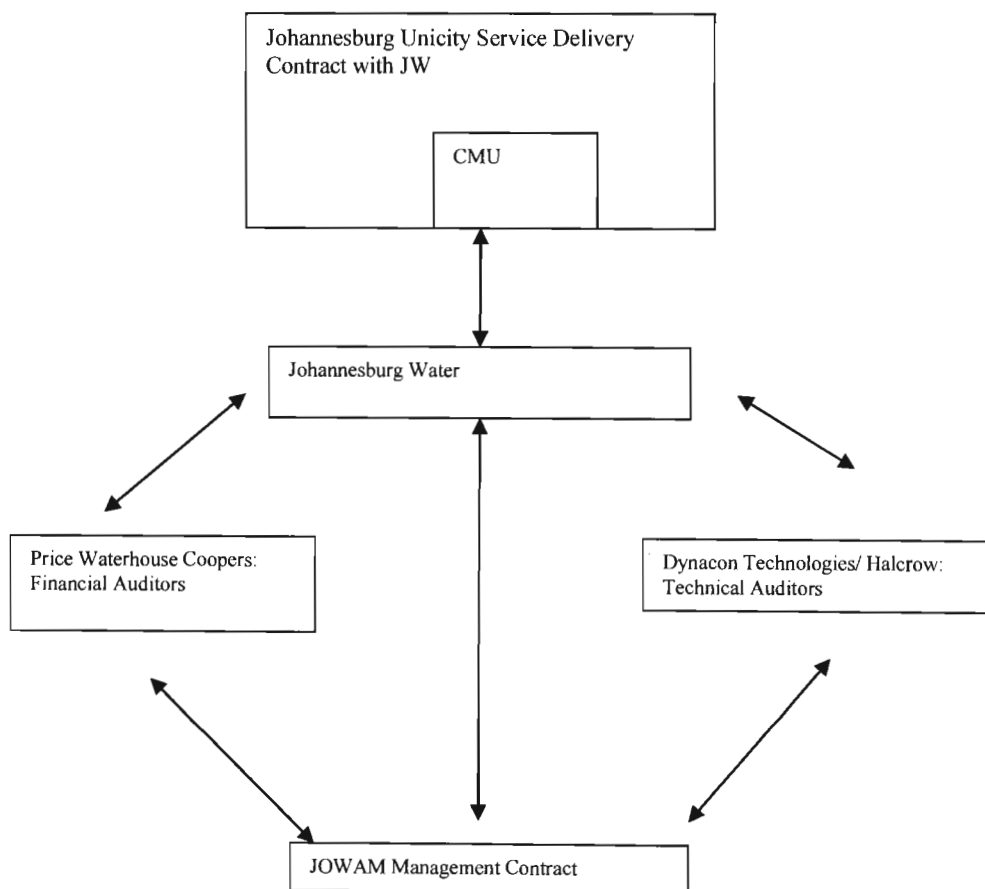


Figure4 Diagrammatic sketch of Contractual Relations

Source: Johannesburg Water (Pty) Ltd, 2002

3.7. The Challenges

The efforts of Jwater in delivering the service to the people are not without any challenges. The Coalition against Water Privatisation, the Anti Privatisation Forum and the Phiri Concerned Residents Forum are but a few of those organised movements that are against Jwater's efforts of delivering quality water services (Johannesburg Water, 2004).

The Coalition against Water Privatisation was formed in September 2003 as a result of struggles against installation of prepaid meters in Phiri Soweto. It includes the Anti Privatisation Forum, Environmental Justice Network Forum, Jubilee South Africa, Indymedia SA, Freedom of Expression and many more. The Coalition brings together and gives support to communities facing the privatisation of water services.

The Anti Privatisation Forum was established in July 2000 by activists and organisations. It is involved in key anti-privatisation struggles: the struggles against iGoli 2002 in Johannesburg. The Phiri Concerned Residents Forum was set up by Phiri residents in August 2003 in response to the initial attempts by Johannesburg Water to install prepaid meters in Block 1, Phiri. It has since grown and become an affiliate. It works closely with Soweto Electricity Crisis Committee and the Orange Farm Water Crisis Committee. It is also a founding member of the coalition Against Privatisation, (Buhlungu, 2004)

3.8 Conclusion

Based on the above discussion one can deduce that Jwater was privatised for the purpose of delivering a quality service to the customers, however, whether they are achieving the purpose for which they have been formed is another issue which will be proved or disproved by the results of the research as depicted in the chapter of Methodology and Analysis of results below.

The next chapter deals with the issue of research methodology utilised to analyse the effect of privatisation of municipal services on customer service quality, customer satisfaction in the privatised environment such as Jwater.

CHAPTER FOUR: RESEARCH METHODOLOGY

4.1 Introduction

The objectives of this research are to evaluate the effect of privatisation of municipal services on customer service quality and to investigate service quality and customer satisfaction in a privatised utility environment such as Johannesburg Water (Pty) Ltd. The stated propositions were tested using the interview schedules. The executives of Johannesburg water as well as their two independent customer groups of private corporate clients as well as the institutional or government clients such as schools, hostels were interviewed using a one-on –one interview technique.

This chapter describes the research design, the sampling procedure, data gathering methods and data analysis process.

4.2 Research Design

The research design constitutes the blue print for the collection, measurement and analysis of the data. It is a plan and structure of investigation so conceived to obtain answers to the research questions. The degree to which this research was crystallised was that of exploratory study. In this research both quantitative and qualitative methodologies were used. The research was qualitative because a structured questionnaire addressing specific research questions was used and also the results were measured using both qualitative and quantitative tools.

4.3 Sampling Techniques

Having identified the organisation which was subject of Privatisation through Management Contracts, in this case Jwater, the executive management of Jwater were interviewed using a one-on-one interview schedule. The reason for selecting the management instead of random selection of the personnel of the organisation was to avoid a situation where people who are just ordinary employees with little or no knowledge of strategic issues of the Organisation, would not have all the answers for certain strategic questions on the questionnaire as they sometimes do as they are told or as per their employment contract without much regard to the past, present and future goals of the organisation.

After selecting the organisation as the subject of research, the company secretary was approached with a request for information on the executive managers of the organisation to be interviewed. The names and contact details of the relevant subjects were supplied by the said company secretary. It then transpired that there were only six (6) executive managers that could be interviewed from Jwater. Since the Institutional and Corporate customers were also to be interviewed, information on customers was then requested from the customer service manager and was provided by the manager's office.

The customers were then selected randomly based on their geographic location within the boundaries of City of Johannesburg serviced by Jwater. A total number of fifteen customers were selected and interviewed. The reason for selecting fifteen customers was to ensure that the number of executives interviewed from Jwater corresponded with the ten targeted respondents intended to be interviewed from both the corporate and institutional groups. In reality the numbers ended up rather different to the plan with six respondents from Jwater executives and fifteen respondents from the two customer groups of Private Corporate and Institutional customers. In essence the sample size of 21 total respondents is a very small sample size which may have an impact on the reality of the results obtained.

Further, upon interviewing Jwater management they indicated that their customer base which they obtained from COJ through Management Contract was split into Private Corporate Clients and Institutional clients. The Corporate Private clients as the name depicts indicate business clients in the fields of but not limited to hospitality (Hotels, Bed and Breakfast places), Public and Private Companies, Financial Service Companies such as banks and insurance companies. The institutional customers refer to Educational Institutions, Prisons, Hostels, Schools and other Government Department entities. Based on the information obtained from Jwater a list of both Private and Institutional customers with telephonic details was obtained from Jwater. The executive management of both private and institutional customers were interviewed also using one-on –one interview technique based on the questionnaires which was specifically designed for customers.

For similar reasons as one set out above for selecting executive management of Jwater, the executive management for both Private and Institutional customers were selected for the interviews.

4.4 Data Collection Methods

To obtain information on the service quality rendered by Jwater, two sets of questionnaires were used. Questionnaire A in Appendix 2, aimed at Jwater's management and questionnaire B, in Appendix 3 aimed at both private corporate customers and institutional customers that are serviced by Jwater.

Although the questionnaire looks similar from a glance, there are differences in the way the questions are phrased. For example, the questions dealing with regulations of the organisation, Jwater were not specifically asked to the customers, in particular, questions 22 to 27 of Questionnaire A. The Customers questionnaire required some elaboration of the answers, in particular questions 7 to question 13 of Questionnaire B. The reason for creating two different questionnaires for the customers and Jwater management was to ensure that the one does not have the insight of the questions and answers given by the

other. Further, it was to ensure that the answers by Jwater were not influenced by the customers' answers and vice-versa.

Questionnaire A, aimed at Jwater's management was administered to the top executives of Jwater including the Chief Executive Officer. Questionnaire B, aimed at Jwater's customers was administered to top executives of both private and institutional customers dealing with procurement issues. Six executives were interviewed from Jwater. A total number of 15 questionnaires were administered to both the private and institutional customers group to ensure even and equal coverage of the population in all three categories. Where necessary, results from existing research were used to compare and survey the results as no primary comparative data was collected, bearing in mind that the sample size of total of 21 respondents in evaluating an organisation like Jwater may not be a true reflection of the correct situation.

4.4.1 Questionnaire A for Jwater Management

This questionnaire consists of four parts:

- **Demographic Section:** This first part consisting of question 1 to 7 was aimed at drawing up a profile of the participants in terms of age, gender, position of the interviewee, the services rendered by his/her organisation and finally the customer segments serviced by the organisation.
- **Quality and Customer Awareness:** The second part of the questionnaire (questions 8-11) consisted questions on service quality and customer awareness with the aim of establishing whether Jwater is aware of its customer needs so as to ensure that they meet their customer expectations.
- **Service Quality and Satisfaction:** The third part of the questionnaire (questions 11-21) constitutes the ten dimensions of SERVQUAL, later refined five as described in Zeithaml *et al.*, (1985, 1990) and De Sarbo *et al.*, (1994). The aim of

these questions was to measure organisation's perception of service quality as illustrated in the GAPS Model in Chapter 2 above as well as the SERVQUAL Model on the dimensions of service quality such as Reliability; Assurance; Tangibles; Empathy and Responsiveness of the organisation. These were not used as they appear in SERVQUAL Model since the Model, although still perceived to be the best instrument available to measure customer service quality, has been widely criticised for its instability.

- **Privatisation and Regulation:** The final part of the questionnaire (question 22-27) contains specific items regarding Privatisation and the Regulatory regime and its effect on service quality. The construction of these questions was guided by the literature that was reviewed on these concepts.

4.4.2 Questionnaire B for Customers

This questionnaire also consists of four parts:

- **Demographic Section:** This first part consisting of question 1 to 5 was aimed at drawing up a profile of the participants in terms of age, gender, race, citizenship and position of the interviewee. Question 6, although it was not part of the demographic questions, it was not aimed at establishing the name of the organisation as such but rather to identify whether the organisation represented by the interviewee was a Private or Public Company or whether it was an institutional organisation.
- **Statements on Quality and Customer Awareness:** Unlike questionnaire A, this questionnaire, part 2 thereof consisting of questions 7-10 required the customer to identify services and customer service that his/her organisation serviced. This was done to remind the customer that they are also involved in servicing other customers and should be aware of customer satisfaction issues. These questions

required the interviewee to do a write up on his/her views on each and every question.

- **Privatisation and Regulation:** The third part of the questionnaire (question 11-13) contains specific items regarding Privatisation and the Regulatory regime and its effect on service quality. The construction of these questions was guided by the literature that was reviewed on these concepts.
- **Service quality and Satisfaction:** The final part of the questionnaire (questions 14-28) constitutes the ten dimensions of SERVQUAL, later refined to five as described in Zeithaml *et al.*, (1985, 1990) and De Sarbo *et al.*, (1994). The aim of these questions was to measure organisation's perception of service quality as illustrated in the GAPS Model in Chapter 2 above as well as the SERVQUAL Model on the dimensions of service quality such as Reliability, Assurance, Tangibles, Empathy and Responsiveness of the organisation. These could not be used as they appear in SERVQUAL Model since the Model, although still perceived to be the best instrument available to measure customer service quality, it has been widely criticised for its instability.

4.5 Data Analysis

The questionnaires discussed under 4.4 above were consolidated from all groups of interviewees. These individual responses were captured and consolidated into a tabular format. The responses were analysed using SPSS. Although the sample size of total of 21 respondents was exceptionally small it was necessary to conduct these analysis so as to have a feel of what the results will reflect, although the sample size is not representative enough.

4.5.1 Descriptive Statistics

Due to the exceptionally small size of the sample with total respondents of 21, non-parametric tests were used to measure the results. The data was firstly summarised and presented as frequency tables with central tendency indicated. The open-ended questions were also content- analysed and thus presented.

4.5.2 Correspondence Analysis

Correspondence analysis is an interdependence technique that facilitates both dimension reduction of object ratings on a set of attributes and the perceptual mapping of objects relative to these attributes (Hair, Anderson, Tatham and Black, 1995).

The verbal qualitative scales were converted to interval data using correspondences analysis (Bendixen and Sadler, 1995) to facilitate further quantitative analysis. Question 11 in Questionnaire A aimed at Jwater's management and Question 17 in Questionnaire B aimed at customers "*Your overall evaluation of the organisation's service quality*" was used in several tests to compare other variables to the overall assessment of the service quality. A t-test was done to compare other variables to the overall assessment of the average of questions 10 to 21 and questions 16 to 27 of the Jwater's management questionnaire and customers' questionnaires respectively was different to that questions 11 and 17 mentioned above. This was done to test the validity of questions 11 and 17 as an overall measure for service quality as rated by the participants.

4.5.3 Value Analysis

The **Mann-Whitney U Test** was used to test the relevant variables of service quality as depicted in the questionnaires for both customers and Jwater executives. It was also used to compare differences between corporate customers and institutional customers in their responses of customer service quality and regulation questions. This test was used both in

two tailed and one tailed test categories. Two tailed: H_0 : The two populations have identical probability distributions, a : the two populations differ in location (mean). One tailed: H_0 : The two populations have identical probability distributions; H_a : Population X is shifted to the right of population Y; or H_0 : The two populations have identical probability distributions; H_a : Population X is shifted to the right of population Y

Wilcoxon Test was also used to measure the ranking of the variable values this is known as signed rank test for paired samples. It has the following assumptions: (1) Each pair of data is randomly selected; (2) The absolute values of the differences can be ranked.

It measures both two tailed: H_0 : the populations differences are centred on 0; H_a : the populations differences are not centred on 0 and One tailed: H_0 : the populations differences are centred on 0, H_a : the populations differences are centred on a value < 0 Or H_0 : the populations differences are centred on 0, H_a : the populations differences are centred on a value > 0 .

4.5.4 Factor Analysis

Factor analysis is normally used to discern the underlying dimensions or regularity in phenomena by summarising the information contained in a large number of variables into a smaller number of factors (Zigmund, 1997). Factor analysis is particularly suitable for analysing the patterns of complex multidimensional relationships (Hair, *et al.*, 1995)

This could not be used in this research since the sample was smaller than 30 respondents.

4.5.5 Analysis of the Variance

The propositions were evaluated using Wilcoxon- Test as well Mann- Whitney U Test to measure the one sample statistics between different variable data. The one way analysis of variance compares the means of two or more groups to determine if at least one

group's *mean* is different from the others. The Z-test ratio is used to determine statistical significance. The test is used to determine the statistical significance between sample distribution mean and parameters. The tests are non-directional in that the null hypothesis specifies that all *means* are equal and the alternative hypothesis simply state that at least one mean is different (Hintze, 1997).

4.6 Conclusion

This chapter attended to the question of research methodology and set out to clarify the research design, sampling technique, data collection methods and data analysis techniques used. A research model used in this study was discussed thus clarifying the role of privatisation of municipal entities in ensuring ultimate service quality delivery discussed in Chapter 2 above under privatisation and also Service Quality framework.

CHAPTER FIVE: RESEARCH RESULTS

5.1 Introduction

The research instruments and the methodology applied as discussed above were carefully selected to measure the variables that are raised by the questionnaires as well as the major problem question raised by this report, namely: Does Privatisation really improve customer service quality?

5.2 Demographic Profile

All people interviewed from the organisation, Jwater were male and 80% of those were white elderly males. This indicates the historical development of South Africa. Those with experience in issues pertaining to government happen to be those who enjoyed the privileges during the National Party Rule, namely, the white males. It also indicates that South Africa has not fully developed from a patriarchal, non-racist and non-sexist society into a fully democratic society recognising the equal rights and benefits society as dictated by the ANC government since it came into power in 1994.

However, from the Customer base, both Private Corporate customers as well as Institutional clients, the demographic profile of the people interviewed indicate that there is an attempt to have fully representative demographics of the society. The institutional customers still indicate the same demographic profile as that of Jwater interviewees but are somewhat better.

5.3 Pertinent Information that Emerged During the One – On - One in- Depth Interviews:

5.3.1 Differences in Ensuring Service Quality in State Owned Municipal Entities as Compared to Opposed to Private Companies Such as Jwater

Although there were obvious differences in opinions whether the parties see Jwater as an independent private company separate from the City of Johannesburg, there was common consensus among the interviewed executives that ensuring service quality in the state owned enterprise or municipalities differs tremendously from that of a competitive environment such as Jwater.

5.3.2 Relevant Points and Reasons Included

Shareholder complacency or ignorance (in terms of State owned Enterprises)
The objectives of the State Owned Enterprises were self-sufficiency in the past, and not service quality. In the other words, the State Owned Enterprise should limit its funding requirements (from the fiscus) rather than aiming for customer satisfaction
Complacent staff and management with inappropriate incentive systems to change behaviour
Lack of competition removes the pressure to stay lean and mean. Also firms are not automatically provided with market feed-back as to what is acceptable service levels and prices
State Owed Enterprises are frequently structured in a way as to inhibit or discourage innovative behaviour.

5.3.3 Factors Contributing to Improving Inhibiting Service Quality

The interviewees mentioned the following factors that would contribute towards improving service quality:

Pro-active entrepreneurial leadership
International exposure
Formal quality management system
Ongoing marketing research and consumer surveys
Reward systems that would incetivise appropriate behaviour
Staff motivation
Globalisation, in other words, although there are no domestic competitors are exposed to high service quality abroad and demand similar treatment locally
Potential for customers obtain redress via political or regulatory channels (i.e. contestability of the power of the firm)

The following responses were provided regarding the factors that would adversely affect service quality:

Lack of balance in the Political System (the probability of change in government via ballot) for example, a major train disaster, due to negligence on the part of the State Owned Enterprise, may bring down government in certain countries
Budgetary constraints
Uneconomical Social Objectives
De-motivated staff and weak management
Bureaucratic organisation structure and inappropriate reward systems
“One Size fits all” approach to service quality
Ineffective or non-existent regulation

5.3.4 Problems Unique to State Owned Enterprises in Service Delivery

The following problems were perceived as being unique to State Owned Enterprises in this regard:

Lack of accountability. The Boards of directors are not really pressurised by the shareholders (the state) to perform. The Boards of directors of wholly owned state enterprises are de facto political appointees.
Lack of competition
Absence or inadequacy of performance management systems
Quality management in state Owned Enterprises was perceived by some interviewees as being inferior to that of private sector
Civil service mentality and inefficient decision making processes
Social objectives that diminish efficiency. Many state owned enterprises are mandated to provide a service to all, such as Jwater, and must provide uneconomical services
Inadequate market segmentation and targeting of segments. Because the firm must provide service to all, management is disinclined to provide different offerings to different segments
The inability of many State Owned Enterprise to obtain funding to grow and renew the business
Variability of demand

5.3.5 The Influence of Regulation on Service Quality

There was consensus among all interviewees that regulation affects service quality and in the absence of effective competition, regulation is necessary. Some however opined that regulation affects quality negatively and others positively.

Comments on this question are:

The method of regulation and selection of regulators are important issues to ensure effective regulation
The regulator should attempt to proxy competition as closely as possible
Firms tend to focus more on complying with regulations rather than on service delivery
Regulators should focus on methods to encourage new entrants into the market, so that in the long term the need for regulation would be eliminated
The regulated firms possess superior information to that of the regulator, which diminishes the efficacy of the regulation

5.3.6 Customers as Captive Audience

All the people interviewed agreed that State Owned Enterprises usually view their customers as captive. However, the executives interviewed agreed that the level of service quality affects the perception of the customer as being captive more than the lack of alternative suppliers.

In other words, if a customer is happy with the service received, he or she does not really mind that there are alternative suppliers

5.3.7 Other Comments

Several of the interviewees mentioned that privatisation does improve service quality. The substantiation to this reasoning was that private shareholders put pressure on management to perform better.

A point that was frequently raised was that a vital precondition to service quality is competent and motivated workforce. Firms need to invest significant amounts in training. The state as shareholder needs to be informed as to its duties and rights in this regard. In addition the processes need to be established to ensure that these rights are exercised properly.

Finally, it was mentioned that the customer should have an effective platform (such as a consumer council) to which to direct his or her complaints and that this platform should have adequate power to enforce remedies.

5.4 Conclusion

The above chapter empirically evaluated the relationship between Privatisation and customer service quality. From the answers to both the questionnaires it is clear that there is a thin dividing line between what the Customers (both Private and Institutional) as well as the organisation involved, Jwater believe to be as a result of a benefit of privatisation. All the interviewees seems to be excited about the process and believe that given a chance Jwater has a possibility of tremendous improvement in its service quality in delivering water and sanitation services to the designated customers.

CHAPTER SIX: DISCUSSION OF RESULTS

6.1 Introduction

This chapter provides a discussion of the research findings of the study. It is important to reiterate that an empirical examination of the impact of privatisation of municipal entities on customer service quality was conducted by this study. The relationship between privatisation, service quality and customer satisfaction was used as a context, as well as data from a sample survey of 21 respondents. It is imported to note that the sample size in itself is too small to yield a conclusively reliable result. The study being exploratory in nature, despite its value, exploratory research is usually given less attention by both researchers and managers alike. Exploration is sometimes linked to old biases such as subjectiveness, nonrepresentativeness, and non systematic design (Cooper and Schindler, 2003).

The results obtained through the qualitative techniques such as the in-depth one-one one interviews conducted with all the 21 respondents, although too small a sample, as well as the secondary data from the literature as set out in chapter 2 above, comprehensively showed that service quality is positively associated with privatisation, which both associated with customer satisfaction.

In order to measure the aggregated propositions as set out in chapter 1 above, a one sample T-test was utilised to test average on a sample against a population average. The T-test was utilised due to the smaller sample size of total 21 respondents. The variations on the T-test were used for both independent and related samples. A variety of Non-parametric tests may be used in a one sample situation depending on the measurement scale used. If the measurement scale is nominal (classificatory only), it is possible to uses the binominal one sample test. The binominal test is appropriate where the population is viewed as only two classes, such as male and female, buyer and non-buyer, successful and non- successful and all the observations fall into one or other of these categories. The binominal test is particularly useful when the size of the sample is so small that the

Chi-square test cannot be used. When using this test the fact that the sample size is way too small, it being only 21 respondents out of an organisation which service over 8000 clients and employ more than 2000 people must always be revisited and kept in mind.

Where the population deviation is not present then the mid point of the scale was used. In this case 3 was used as a midpoint between 1 and 5. The scale ranged from Excellent being a highest score of 5 and very poor with the lowest score of 1.

Results show that Jwater needs to improve on all variables, which are highlighted in yellow except for two (2) variables which are not highlighted, namely:

awareness of customer needs
The Facilities
Reliability of service
Understanding customer's individual needs
Overall evaluation of the organisation's service quality
Value for money
Reputation for honesty
Courtesy of the staff
Convenience of accessibility
Communication with customers
Responsiveness
Reputation for confidentiality
Competence of the personnel
Ability to adapt to customer needs

Where the measurement is less than 0.05 they are significant and where they are more than 0.05 then they are not significant. Therefore the significance 2-tailed test shows that all the items mentioned above are significant except for the Organisation's ability to adapt to its customer needs and competency of the personnel.

The standard deviation measurements show that there is a wide spread between variables. In measuring customer perception of quality of water and sanitation provided by Jwater a one sample T-Test was utilised on all the items. The results showed that all the highlighted variables were significant except for those not highlighted. However, these results must be approached with caution since there is generally a response bias among respondents and this might not be a true reflection of the situation.

To determine the above a non pragmatic test was used due to sample size. Two independent groups were compared using the Mann- Whitney U Test as well as Wilcoxon test which utilises paired results. All the items were found to be significant except for Value for Money and facilities. The mean rank on value for money was 15.83 for Jwater executives and 9.37 for customers. The mean rank for Facilities was 13.83 for Jwater's executive and 9.87 for customers. This is a clear indication that Jwater tends to overrate itself on this variable as compared to what customers perceive to be the case with Jwater's customer service quality on water and sanitation

In determining a difference perception of quality of service delivered by Jwater between Corporate and Institutional customers, a non-parametric test was used to compare the two independent groups using Mann- Whitney Test. This test indicates that there is a difference in three items, namely: reliability, communication with customers, understanding individual customer needs and accessibility to customers (Albright, Winston, and Zappe, 2003)

To determine whether regulation of Jwater's activities has a positive or negative effect on customer service delivery quality (customer perception of regulation has no impact on service quality), the whole sample between those who believe that Jwater was regulated, those who thought it was not regulated and those who did not know. Mann-Whitney independent test was used to see if the groups differed significantly on any of the quality of service variables. No group differed significantly; this may be due to possibility of lack of understanding of regulation.

To determine whether there is a link between privatisation and improved customer service quality. In evaluation of open ended questions, the following were noted as generally common comments:

<p>A competitive environment stimulates better service and quality</p> <p>A non competitive environment poses no challenges for any organisation</p> <p>I believe it is in the subjective, depend on a person to person's point of view</p> <p>It depends on the circumstances within which the organisation is operating</p> <p>Lack of competition results in complacency</p> <p>Monopoly industry have control over customer choices, if any</p> <p>No explanatory response</p> <p>Ownership of the organisation is not a decisive factor on quality service delivery</p> <p>Performance of the organisation is not dependent on who owns it but on the personnel responsible for delivery of such service</p> <p>Service quality is dependant on the knowledge of the personnel delivering the service</p> <p>The customers do not need to choose from many choices but to ensure that they get their value for money when served by monopoly industry.</p> <p>There is no choice available for the customer</p> <p>Where there is no competition the organisation tends to be complacent</p>

There is substantial literature indicating that there is a link between privatisation and improvement of customer service quality. As indicated in chapter 2 above, improved efficiency and service levels is one of the objectives of privatisation (Caves and Christen, 1980; Foster, 1992; Krakoff, 1998 and Sahney *et al.*, 2004)

6.2 Descriptive Statistics

The objectives of descriptive statistical analysis are to develop sufficient knowledge to describe a body of data. This is accomplished by understanding the data levels for the measurements we choose, their distributions, and characteristics of location, spread, and shape. The discovery of miscoded values, missing data and other problems in the dataset is enhanced with descriptive statistics (Cooper and Schindler, 2003)

Whereas questions 1 to 4 in both Jwater and Customers questionnaires dealt with demographic issues, question 5 onwards dealt with descriptive statistics issues.

6.2.1 Question 5 What is your position/title designation?

This question required the position of the respondent. The job titles were categorised into “middle”; “senior” and executive levels

Middle Management	3
Senior Management	6
Executive Management	12
Total	21

Table 5 Levels of management surveyed

6.2.2 Question 6 & 7 on Questionnaires A and B respectively What customer segment does your organisation targets?

This item asked the respondents which customer segments their organisation served, with a choice of three: public sector, private sector or both. The respondents could select more than one. The response frequencies are as follows:

Customer segments served	
Public	0
Private	5
Both Public and Private sector	16
TOTAL	21

Table 6 Customer segments served

6.2.3 Questions 8 to 13 of Questionnaire B

These were open ended questions that allowed the respondents room to elaborate on the information. These were also aggregated and measured. These questions were aimed at finding out whether the respondent customers believed there was a difference in quality of service delivered by private entities as compared to municipal entities. The majority of

the responses suggested that there is indeed a difference in the quality of the service delivered.

There were no corresponding questions in Questionnaire A which was aimed at Jwater’s management.

6.2.4 Question 8 to 21 of Questionnaire A and Question 14 to 27 of Questionnaire B

These constitute original dimensions of Gaps Model as well as the SERVQUAL model as question, an approach followed by De Sarbo *et al.*, (1994). All ten were also in the form of five point Likert scale, anchored at 1= “Excellent and 5 = very poor.

		Excellent	Good	Average	Poor	Very Poor
Q.8/14	The Organisation’s awareness of Customer needs					
Q.9/15	Value for money of services rendered by the organisation					
Q.10/16	The organisation’s ability to adapt to its customer’s needs					
Q.11/17	Your overall evaluation of the organisation’s service quality					
Q.12/18	The facilities					
Q.13/19	The reliability of the service					
Q.14/20	The responsiveness					
Q.15/21	The communication with customers					
Q.16/22	The reputation for honesty					
Q.17/23	The reputation for confidentiality					
Q.18/24	The Competence of the personnel					
Q.19/25	The courtesy of the staff is					
Q.20/26	The understanding of the customer’s individual needs					
Q.21/27	The convenience of accessibility					

Table 7 Frequency distribution of options questions

The executives of all groups appeared confident that Jwater is rendering a good service, where the mode for all questions but the last 2 is “Good”

The highest mode of all the questions is the “good” rating for questions 13/19 (reliability, accuracy and dependability) and question 18/24 (Knowledge and competence of the staff), with a sum rank of 49. This is followed by question 9 (value for money) at 48. The highest “excellent” ratings are for question 17/23 (safety and confidentiality). The mode for questions 20 and 21 are both “average” with 33 and 34 respectively. The highest ratings using the rescales means were for question 9: “value for money of services rendered by the organisation (1.99), question 17/23: “The reputation for confidentiality is” (2.00) and question 18/24: The competence of the personnel is” (2.01). The lowest ratings are Question 15/21: “The communication with customers is” (2.50), Question 20/26: “The understanding of customers individual needs is” (2.48) and Question 10 “The organisation’s ability to adapt to its customer’s needs” (2.47). All the mean ratings are between “good” and average (2.88). The highest poor rating is for question 15/21: “Communication with customers”.

6.2.5 Question 22 to 27 – Questionnaire A

The final six items on questionnaire aimed at Jwater’s management comprised of “yes” and “no” options with respondent prompted for additional information for questions 22 to 27:

		Yes	No
Q.22	Do you believe that your customers will defect to another service provider if available		
Q.23	Is your firm subject to regulation		
Q.24	Are your firm’s prices regulated		
Q.25	Are your firm’s service standards regulated		
Q.26	Are your firm’s funding and financing regulated		
Q.27	Does your firm’s regulations include social objectives		
	If yes, please specify which type of regulation		

Table 8 Regulations questions

Most of the respondents from the Jwater's executives interviewed confirmed that the organisation was subject to regulation. In contrast most of the respondents from the Private Corporate customers indicated that they did not know if Jwater's activities were regulated or not whereas most of the Institutional customers indicated that they were aware that Jwater's activities were regulated somehow although they were not aware of specific regulatory frameworks. However, the majority indicated that regulation was bad for any organisation to function properly. Their responses could be due to the fact that they are in the same or similar situations as Jwater where their activities are also regulated (Question 11 and 12- Questionnaire B).

6.2.6 Question 28 of Questionnaire B

This question invites the respondents to add any information that they believed could assist Jwater to improve their customer service quality. Most of the respondents indicated that among other things more regular customer communication was the key for Jwater's success.

6.3 Overall Evaluation of Service Quality

According to Hair *et al.*, (1995) data should not be factor analysed where a sample is fewer than 50 observations and there should be at least five times the number of observations than there are variables. The study did not comply with both the requirements, thus factor analysis was not utilised. The respondents interviewed only totalled 21 and the variables that were to be measured were only five based on the revised SERVQUAL method of measuring customer service quality as discussed in Chapter 2 above. In this case developing a standardised scale for measuring the variables was the only option. As a result of the above a scale measurement strategy known as item analysis was adopted to achieve the Likert scales discussed under Methodology chapter above.

The first impression of the responses is that of technical proficiency. In other words, the management of the respondents Jwater executives rates service quality from their own perspective rather than customer perspective. Note for example the high “excellent” and “good” rating for questions 11; 12; 13 and 18 on questionnaire A:

- Your overall evaluation of the organisation’s service quality.
- The facilities.
- The reliability of the service.
- The responsiveness.
- The Competence of the personnel.

The above responses differ tremendously from those given by the customers on the same questions which range from average to poor. This indicates that Jwater are overrating themselves in this regard.

The second impression is that of a much lower assessment in terms of customer orientation on Question 8 “The Organisation’s awareness of Customer needs” initially appear to be at odds with this impression. The ratings for question 10 “The organisation’s ability to adapt to its customer’s needs”; Question 15 “The communication with customers”; Question 20 “The understanding of the customer’s individual needs” and Question 21 “The convenience and accessibility” tend to contradict the rating of question 8”. Finally, the high response of “yes” in question 21 indicates the organisation’s awareness of the fact that the service quality that they are currently providing to their customers might not be what the customers expect.

Therefore, the overall impression is that Jwater rated their service as good in terms of mandate (from regulators and government) rather than how their customers felt about it. Almost half of the Jwater’s respondents answered communication with customers and understanding their customer needs as good. Similarly they regarded their service as convenient and accessible. Both the above responses were way contrary to what their customers believed. The customers perceived Jwater’s services as poor or worse and

inconveniently inaccessible. The customers indicated that if they had a choice of another service provider they would probably defect to the competitor.

Even more striking is the fact that almost all of the Jwater's executive respondents answered that their customers would not defect should there be an alternative supplier. Therefore, despite the bad service being rendered by Jwater at present as per customer perspectives, it could still retain customers anyway due to the fact that there is no alternative service provider being in competition with Jwater and customers do not have a choice but to take whatever service is being thrown their way.

Most of the proposition were evaluated using an overall service quality ratings as a benchmark. Question 11 "*Your overall evaluation of the organisation's service quality*" asked this specifically. In order to determine whether this item is consistent with the overall assessment of validity of this question was checked. A paired T-test was used to determine whether significant differences existed between the rescaled Question 11 and the average of the ten items representing SERVQUAL's original ten dimensions of service quality. The test revealed that question 11 was indeed consistent with the overall evaluation of service quality.

6.4 The Findings

Proposition 1

There is a link between privatisation of state owned municipal entities and improvement of quality customer service delivery.

Monopolies are by their definition single sellers of their commodities. As a result, the customers are therefore captive audience to the monopolies. The customers only have a choice of consuming the product provided to them by these monopolies alone or not to consume the product at all. Privatisations of these municipal services ensure that there is improvement in customer service quality delivered by the Private entities as discussed in

chapter 2 on literature review, in particular the natural monopolies and regulations being one of the objectives of privatisation (Viscusi *et al.*, 1992 and Krakoff, 1998)

Proposition 2

Johannesburg Water (Pty) Ltd (“Jwater”) has to improve on number of customer service ingredients to ensure that it improves on customer service quality.

From the Mann- Whitney U- Test as well as the Wilcoxon Test utilised in the methodology above there is a clear indication that Jwater needs to improve on all but two of the service quality variables. Jwater needs to improve on: awareness of customer needs; the Facilities, Reliability of service; Understanding customer's individual needs; Overall evaluation of the organisation's service quality; Value for money; Reputation for honesty; Courtesy of the staff; Convenience of accessibility; Communication with customers; Responsiveness; Reputation for confidentiality.

It was noted that Competence of the personnel; Ability to adapt to customer needs are less significant to both Corporate and institutional customers such that Jwater needs to concentrated of the first mentioned eleven (11) variables to ensure a complete success on customer service quality delivery.

Proposition 3

Customers perceive the Quality of water and sanitation Service as provided by Johannesburg Water as being good.

Both the institutional customers as well as corporate customers rated Jwater’s service delivered as ranging between average and good. However, Jwater’s executive rated their service as being excellent thus overrating themselves. There is actually a difference of over 50% between customer perception and Jwater’s executive’s perception of the

service quality on almost all the variables. For example on awareness of customer need, Jwater's executive rates 79.00 whereas customers rate them 49.00. Therefore Jwater's perception of their own customer service quality should be approached with caution for reasons set out above.

Proposition 4

Jwater's perception of the quality of service delivered is excellent as opposed to what the customers perceive the quality of service received to be.

This proposition is similar to proposition 3 above just worded differently, thus the findings on this proposition are also similar, i.e. Jwater seem to find their services as excellent whereas customers find the service to be good. Jwater executive tend to overrate themselves on all customer service quality variables.

Proposition 5

There is a different perception of quality of service delivered by Jwater between Corporate and Institutional customers

Generally the institutions seem to find Jwater's service to be poor as compared to their corporate customers counterparts. For example, on overall evaluation of service quality variable, the institutional customers rates Jwater at 46.50 whereas their corporate counterparts rate them at 73.50. However this measurement must also be approached with caution since there is a history of research response bias in South Africa as a whole. The private corporate institutions might be of the view that their response might be picked up that they come from a particular respondent and that respondent might be marginalised on certain important issues by Jwater.

Proposition 6

Customer perception of regulation has no impact on service quality

Most customers seem to think that regulation has no impact on service quality. Some of the respondents were not even aware that Jwater was regulated in its activities and which regulations affect them. However, most executives at Jwater knew that Jwater's activities were regulated and confirmed that regulation has a positive effect on service quality delivery.

6.5 Conclusion

This chapter was aimed specifically to evaluate the proposition posed by this research. The six propositions were analysed sequentially based on the results as discussed in chapter 5 above and the responses to the open ended questions. From the said measurement it can be suggested that there is a link between privatisation and improved customer service quality, JW needs to improve on all but two of the variables which were indicated as significant under paragraph 6.1 above, Customers perceive the quality of service provided by JW as "good" whereas JW itself perceive the service they provide to their customers as being of excellent quality, There is a different perception on the quality of service between Institutional and Corporate customers although they both receive similar service from JW, this difference in perception can be linked to the fact that JW is a private company born from City of Johannesburg (COJ) which is a municipal entity, thus the institutional customers still associate it as an extension of the municipality. On the other hand, the Corporate customers see it as a Private entity which should be fully independent of COJ and thus performing better than a municipal department. Generally, the majority of the customers believe that regulation has no impact on the service quality delivered by the organisation, whereas JW itself believe that regulation renders it redundant in a way towards accelerating its customer service quality delivery.

CHAPTER 7: SUMMARY AND CONCLUSIONS

7.1 Introduction

This research was of exploratory nature. The data suggests that service quality in its broader sense is a problem monopoly industry thus privatisation is crucial.

Based on the findings, State owned enterprises regard customers as captive knowing that the customers do not have alternative supplier and also knowing that if another supplier should enter the market, they would loose customers.

Although they recognise that many important elements of service quality are neglected, Jwater's management shows lack of awareness of customer needs and requirements. This would explain why Jwater rates itself twice as much higher than its own customers in terms of service quality variables.

The Analysis indicates that the two most important variables that loaded onto first factor were reputation for honesty and confidentiality. It would appear that Jwater management need to place customers foremost in their value system before noticeable improvement in service quality from this privatised sector can be expected.

7.2 Limitations of the Research

The first limitation of this study is that the study of Jwater will not necessarily be representative of privatised entities. The study was exploratory, conceptual and qualitative to a large degree. This will limit the applicability of the findings across different regions, industries or nations, until the study is replicated in different environments.

Time and other resources limit the potential coverage that can be afforded to even the area studied. Many topics could have been included in the research, such as non- state owned monopolies and perceptions of customers and staff. The fact that only one privatised entity in the Greater Johannesburg Municipal region out of the four privatised entities as well as the Gauteng Shared Services and the municipality itself was evaluated places severe limitations regarding wider applicability of the results. The results in all the propositions may well have been different had a large sample been selected and had all the relevant entities been evaluated.

Due to potential positive or negative halo effects, the results from the study should be applied with caution to other population samples. Both types of halo effects appear to be present in the data. Firstly the generally high ratings by almost all the respondents indicate that a positive halo effect is present in most respondents. Secondly almost all the respondents did not respond “very poor” to any of the relevant questions, thus the rating was never used.

It appears as if the respondents were never certain what the word regulation mean sometimes confusing the concept with industry associations and Total Quality Management systems (TQM). This raises suspicion on the validity of the regulation related questions.

The sample size was so small, less than 30 such that using split sample techniques to validate data was not possible. Validation of interdependence using multivariate methods was almost impossible because they describe the data structure that should be representative of the population as well.

All the above indicates that caution should be exercised when attempting replication

7.3 Future Research

The first area that could profitably be researched would be to do a comparative study on the customers of all privatised entities as compared to municipal customers. Valuable information would be obtained from contrasting assessments of service quality and regulation. In addition a larger sample would ensure that factor analysis is utilised to highlight the underlying dimensions which are important to the customers as well as whether there is agreement between the two sets of dimensions.

A second area is research of service quality and marketing orientation of the public sector, using standardised instruments such as SERVQUAL and MARKOR. This would improve service quality in those sectors and also afford inter industry comparisons with private sector firms.

Thirdly, research on incorporation of service quality and marketing orientation into industry regulation is would be valuable considering a number of privatised entities in South Africa.

Finally, research of regulation and its impact on service quality is virtually non-existent. Industry specific regulations are widely spread globally but surprisingly little or no research has been done regarding its efficacy.

7.4 Conclusion

The study based on the sample size of 21 respondents was inadequate to conclusively prove that service quality is positively associated with privatisation of municipal entities, which is positively associated with improved customer service quality. In short, the study did not conclusively prove that privatisation served as the best predictor of customer service quality when one viewed the study form the quantitive sphere. However, if one concentrate on the qualitative exploratory study and the vast literature reviewed



(secondary data) as well as the primary data obtained from Jwater's internal sources on Privatisation and customer service quality issues discussed in the report, then one can conclusively say that there is a link between Privatisation and Customer Service Quality. In essence the reviewed literature clearly indicates that the main reason why municipalities resort to privatisation is to attempt to improve customer service quality provided by the municipalities, which is in most instances considered inadequate and unsatisfactory to the target customers.

Further, a large number of authors concluded that privatisation improves firms' financial and operating performance, yields positive fiscal and macroeconomic benefits (proceeds are saved rather than spent, transfers decline, and governments start collecting taxes from privatised firms), and improves overall welfare. The popular view that privatisation always leads to layoffs is unfounded. While highly protected firms have seen significant declines in net employment, competitive firms generally experienced slight declines if any. Privatisation improves the services quality delivery of most municipal services such as water, sanitation and electricity distribution. Privatisation's effects on wealth and income distribution have only recently been receiving the attention of analysts, and research is just getting underway (Kikeri and Nellis, 2002).

Now taking into account the findings of the empirical study, it can be suggested that there is a clear case for Johannesburg Water (Pty) Ltd (JW) considering a national roll out of customer service quality through privatisation. However, this concept needs to be replicated elsewhere with adequate and representative respondents. All the privatised organisations that followed suit on JW Privatisation need to be evaluated either in isolation or in a comparative status with Jwater extensively on the quantitative angle.

Having mentioned that, there are however certain areas of importance that need review by JW management if a successful customer service quality solution were to be implemented. In general, JW needs to consider what to execute and what to exclude in order to fully support customer service quality delivery going forward. This suggestion is viewed as relevant given the challenges posed by proponents opposed to privatisation of

municipal entities for unfounded reasons of job losses, price hikes and burdening the state with social services payments caused by an increase in unemployment rate as a result of privatisation.

Below are examples of some of the issues that may be worth considering by management at JW.

7.4.1 What Johannesburg Water Management Needs to Stop Doing

- JW customer service department in particular needs to stop seeing themselves in isolation apart from the customers they service since the self-centeredness usually ignores customer needs and interests and usually annoys customers.
- The customer service personnel needs to stop being complacent and improve in their customer orientation.

7.4.2 What Johannesburg Water (Pty) Ltd Needs to Start Doing

- JW needs to put more effort in improving on the following variables, namely, awareness on customer needs, the facilities, reliability of service, understanding individual customer needs, overall evaluation of the organisation's service quality, value for money, reputation for honesty, courtesy of the staff, convenience and accessibility, communication with customers, responsiveness and reputation for confidentiality.
- Education of both staff and customers can create a window of opportunities for both JW and its customers. For example, JW can ensure that their members of staff more especially the customer service personnel are skilled, helpful and knowledgeable about JW services through optimising training programmes and regular customer awareness campaigns.

7.4.3 What Johannesburg Water (Pty) Ltd Can Do Differently

- JW clearly needs change in the way they do business. Now that the study has been able to show what the value of privatisation on improvement of customer service quality delivery is in service encounters, then it can be safely suggested that orchestrating customer service quality throughout JW is a step in the right direction. The “onstage” and “offstage” arena needs to be considered too, meaning JW needs to address the front end processes of the customer service department and other supporting departments (onstage) as well as the back office support (offstage) in order to optimise customer service quality. For example, new water and sanitation service application process happens “onstage” whilst employment verification and vetting of the customer file as per JW laid down compliance rules and policies happens “offstage”. If turn around time were to be improved both “on stage” and “off stage” it will go a long way towards improving customer service quality.

The findings discussed in chapter five above clearly show that privatisation of municipal services has a powerful role to play in improving customer service quality delivery. This can be achieved by employing highly focused and targeted customer-experience-enhancing tactics (focused on optimising customer satisfaction) cutting across all JW’s departments and interfaces with their customers within their service boundaries.

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APPENDICES

Appendix 1- Letter of Consent from Jwater to conduct the study



16 MAY 2006

**MS THANDI MASHAVA
MANGENA & ASSOCIATES ATTORNEYS
SUITE 501
93 DE KORTE STREET
BRAAMFONTEIN**

**YOUR FACSIMILE: 403-6085
EMAIL: tmangena@mangena.co.za**

Dear Ms Mashava:

LETTER OF CONSENT FROM JOHANNESBURG WATER

- o 'THE IMPACT OF PRIVATISATION OF MUNICIPAL SERVICES ON CUSTOMER SERVICE QUALITY'

Permission is hereby granted for you to do a business study pertaining to the above subject. We wish you success with your endeavour.

Yours sincerely



FOR AND ON BEHALF OF:
**GERALD THEMBA DUMAS
MANAGING DIRECTOR**

Copy:

- Mr Graham Luden: Company Secretary.

**City of Johannesburg
Johannesburg Water**

3 Loveday Street
Marshalltown
2001

P O Box 61542
Marshalltown
2107

Telephone: +27(0) 11 688-1511
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www.joburg.org.za
www.johannesburgwater.co.za

Directors:

Mr Gerald Dumas (Managing Director) • Mr Manu Padiaychee (Executive) • Ms Jocelyn Armstrong • Ms Vankia Lennon • Ms Martie van Rensburg • Mr Neil Macleod • Mr Armstrong Ngcobo • Dr Nomonde Mabuya • Ms Mandisa Nomanto Xorile • Mr Nandha Govender

APPENDIX 2. *Research Questionnaire for Johannesburg water –Management*

Interview schedule

Hello, my name is Thandi Mashava. I am currently conducting research for my MBA degree at the University of KwaZulu-Natal. The aim of the study is to evaluate the effect of Privatisation of Municipal entities on customer service quality, in particular, evaluating customer service quality of Johannesburg Water (Pty) Ltd since its inception to date.

All the responses will be aggregated and analysed for this research. Therefore, feel free to answer in any way you may see fit. For transcribing the responses, I hope you don't mind if I record this interview. Please note that this interview will be treated with utmost confidentiality.

Question 1

Please answer the following questions by making a tick in the appropriate box:

Question 1-Gender

	MALE	FEMALE
What is your gender?		

Question 2- Age group

	18-25	26-35	36-55	Over 55
What age group do you belong to?				

Question 3- Race

	African	White	Coloured	Indian
What Race are you?				

Question 4- Citizenship

	Yes	No
Are you a south African Citizen?		

Please answer the following questions as accurately as possible:

Question 5

What is your position/title/designation?

--

Question 6

Please describe the core services that your organisation renders

--

Question 7

Which customer segments does your organisation target? (You may select more than one)

Public		Private sector		Public Sector	
--------	--	----------------	--	---------------	--

How do you feel about the following? Please tick the relevant box

		Excellent	Good	Average	Poor	Very Poor
Q.8	The Organisation’s awareness of Customer needs					
Q.9	Value for money of services rendered by the organisation					
Q.10	The organisation’s ability to adapt to its customer’s needs					
Q.11	Your overall evaluation of the organisation’s service quality					
Q.12	The facilities					
Q.13	The reliability of the service					
Q.14	The responsiveness					
Q.15	The communication with customers					
Q.16	The reputation for honesty					
Q.17	The reputation for confidentiality					
Q.18	The competence of the personnel					
Q.19	The courtesy of the staff is					
Q.20	The understanding of the customer’s individual needs					
Q.21	The convenience of accessibility					

**Please answer the following questions by making a tick on either of the boxes indicating your answer.
Please elaborate where necessary.**

		Yes	No
Q.22	Do you believe that your customers will defect to another service provider if available?		
Q.23	Is your firm subject to regulation?		
Q.24	Are your firm's prices regulated? If yes, please specify the type of regulation		
Q.25	Are your firm's service standards regulated? If yes, please specify which type of regulation		
Q.26	Are your firm's funding and financing regulated? If yes, please specify which type of regulation		
Q.27	Does your firm's regulations include social objectives? If yes, please specify which type of regulation		

Thank you for your time and effort. Your contributions are highly appreciated.

APPENDIX 3. *Research Questionnaire for Johannesburg water’s Customers*

Interview schedule

Hello, my name is Thandi Mashava. I am currently conducting a research for my MBA degree at the University of KwaZulu-Natal. The aim of the study is to evaluate the effect of Privatisation of Municipal entities on customer service quality, in particular, evaluating customer service quality of Johannesburg Water (Pty) Ltd since its inception to date.

All the responses will be aggregated and analysed for this research. Therefore, feel free to answer in any way you may see fit. For transcribing the responses, I hope you don’t mind if I record this interview. Please note that this interview will be treated with utmost confidentiality.

Please answer the following questions by making a tick in the appropriate box

Question 1-Gender

	MALE	FEMALE
What is your gender?		

Question 2- Age group

	18-25	26-35	36-55	Over 55
What age group do you belong to?				

Question 3- Race

	African	White	Coloured	Indian
What Race are you?				

Question 4- Citizenship

	Yes	No
Are you originally a south African Citizen?		
If no, where do you originate from		

Question 5

Position of the interviewee:

--

Question 6

Which organisation do you represent?

--

Question 7

Could you briefly describe the core services that your organisation renders and which customer segments they target:

Question 8

Do you believe that ensuring service quality and customer service is different in a state-owned/monopolistic environment compared to competitive one?

Question 9

Which factors do you believe contribute to improving/inhibiting service quality in this environment?

Question 10

Which problems do you believe are unique to state owned/monopolistic firms in their quest for service quality and customer satisfaction?

Question 11

Please answer the following by placing an X under the appropriate box

Do you think that Jwater’s activities are regulated?	YES	No	DON’T KNOW

Question 12

Do you believe that regulation affects the firm’s service quality and if so, how? Is the regulation effective?

Question 13

Monopoly customers are frequently viewed as a captive audience. Could you please give your opinion in this regard?

How do you feel about the following in as far as Johannesburg Water (Pty) Ltd is concerned? Please mark the relevant box with X

		Excellent	Good	Average	Poor	Very Poor
Q.14	The Organisation’s awareness of Customer needs					
Q.15	Value for money of services rendered by the organisation					
Q.16	The organisation’s ability to adapt to its customer’s needs					
Q.17	Your overall evaluation of the organisation’s service quality					
Q.18	The facilities					
Q.19	The reliability of the service					
Q.10	The responsiveness					
Q.21	The communication with customers					
Q.22	The reputation for honesty					
Q.23	The reputation for confidentiality					
Q.24	The competence of the personnel					
Q.25	The courtesy of the staff is					
Q.26	The understanding of the customer’s individual needs					
Q.27	The convenience of accessibility					

Question 28

Is there any additional information that you feel may pertain to this study in so far as assisting Jwater to improve in their customer service quality?

Thank you for your time and effort. Your contributions are highly appreciated.

Appendix 4 University Ethical clearance- E-mail

From: [Nobubele Potwana](#)

Date: 2006/12/15 09:26:34 AM

To: [Thandi Mangena](#)

Subject: Fwd: Ethical Clearance

Dr. Nobubele Potwana
Senior Lecturer: School of Management
Faculty of Management Studies
Westville Campus
University of KwaZulu-Natal
Durban
4041

T: 031 260 8148

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E: potwanan@ukzn.ac.za

>>> Keegan Naicker 2006/12/14 11:36 AM >>>

Dear Mr Kohler

The Faculty Ethics Committee has approved the following student's Ethical clearance application subject to the changes (or no changes) as per recommendation below. The application form will be sent to the Research Office so that an ethical Clearance number can be allocated. The student may continue with their research.

202520370

T Mashava

The effect of privatisation of municipal entities on customer service

Quality: A study of Johannesburg water (Pty) Ltd

Recommendation: Approved (Retrospective)(no changes)

Regards

Keegan Naicker

Appendix 5 Research Results

Proposition 1- One Sample Test

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
awareness of customer needs	21	4.05	.740	.161
Value for money	21	3.67	.730	.159
Ability to adapt to customer needs	21	3.19	.814	.178
Overall evaluation of the organisation's service quality	21	3.71	.644	.140
The Facilities	21	4.00	.632	.138
Reliability of service	21	3.86	.655	.143
Responsiveness	21	3.48	.750	.164
Communication with customers	21	3.52	1.030	.225
Reputation for honesty	21	3.62	.865	.189
Reputation for confidentiality	21	3.43	.870	.190
Competence of the personnel	21	3.33	.913	.199
Courtesy of the staff	21	3.57	.811	.177
Understanding customer's individual needs	21	3.76	.768	.168
Convenience of accessibility	21	3.57	.676	.148

Proposition 1- Test Value+3

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
awareness of customer needs	6.487	20	.000	1.048	.71	1.38
Value for money	4.183	20	.000	.667	.33	1.00
Ability to adapt to customer needs	1.073	20	.296	.190	-.18	.56
Overall evaluation of the organisation's service quality	5.085	20	.000	.714	.42	1.01
The Facilities	7.246	20	.000	1.000	.71	1.29
Reliability of service	6.000	20	.000	.857	.56	1.16
Responsiveness	2.911	20	.009	.476	.13	.82
Communication with customers	2.329	20	.030	.524	.05	.99
Reputation for honesty	3.281	20	.004	.619	.23	1.01
Reputation for confidentiality	2.257	20	.035	.429	.03	.82
Competence of the personnel	1.673	20	.110	.333	-.08	.75
Courtesy of the staff	3.230	20	.004	.571	.20	.94
Understanding customer's individual needs	4.544	20	.000	.762	.41	1.11
Convenience of accessibility	3.873	20	.001	.571	.26	.88

Proposition 2

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
awareness of customer needs	15	3.80	.676	.175
Value for money	15	3.47	.743	.192
Ability to adapt to customer needs	15	2.87	.640	.165
Overall evaluation of the organisation's service quality	15	3.47	.516	.133
The Facilities	15	3.87	.640	.165
Reliability of service	15	3.60	.507	.131
Responsiveness	15	3.07	.258	.067
Communication with customers	15	3.13	.915	.236
Reputation for honesty	15	3.33	.724	.187
Reputation for confidentiality	15	3.00	.535	.138
Competence of the personnel	15	2.87	.516	.133
Courtesy of the staff	15	3.20	.414	.107
Understanding customer's individual needs	15	3.47	.516	.133
Convenience of accessibility	15	3.33	.488	.126

One-Sample Test

Proposition 2- Test Value 3

	Test Value = 3					
	t	Df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
awareness of customer needs	4.583	14	.000	.800	.43	1.17
Value for money	2.432	14	.029	.467	.06	.88
Ability to adapt to customer needs	-.807	14	.433	-.133	-.49	.22
Overall evaluation of the organisation's service quality	3.500	14	.004	.467	.18	.75
The Facilities	5.245	14	.000	.867	.51	1.22
Reliability of service	4.583	14	.000	.600	.32	.88
Responsiveness	1.000	14	.334	.067	-.08	.21
Communication with customers	.564	14	.582	.133	-.37	.64
Reputation for honesty	1.784	14	.096	.333	-.07	.73
Reputation for confidentiality	.000	14	1.000	.000	-.30	.30
Competence of the personnel	-1.000	14	.334	-.133	-.42	.15
Courtesy of the staff	1.871	14	.082	.200	-.03	.43
Understanding customer's individual needs	3.500	14	.004	.467	.18	.75
Convenience of accessibility	2.646	14	.019	.333	.06	.60

Proposition 2: Mean & Std Deviations

One-Sample Statistics

	N	Mean	Std. Deviation	Std. Error Mean
awareness of customer needs	6	4.67	.516	.211
Value for money	6	4.17	.408	.167
Ability to adapt to customer needs	6	4.00	.632	.258
Overall evaluation of the organisation's service quality	6	4.33	.516	.211
The Facilities	6	4.33	.516	.211
Reliability of service	6	4.50	.548	.224
Responsiveness	6	4.50	.548	.224
Communication with customers	6	4.50	.548	.224
Reputation for honesty	6	4.33	.816	.333
Reputation for confidentiality	6	4.50	.548	.224
Competence of the personnel	6	4.50	.548	.224
Courtesy of the staff	6	4.50	.837	.342
Understanding customer's individual needs	6	4.50	.837	.342
Convenience of accessibility	6	4.17	.753	.307

Proposition 2- Test Value 3

One-Sample Test

	Test Value = 3					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
awareness of customer needs	7.906	5	.001	1.667	1.12	2.21
Value for money	7.000	5	.001	1.167	.74	1.60
Ability to adapt to customer needs	3.873	5	.012	1.000	.34	1.66
Overall evaluation of the organisation's service quality	6.325	5	.001	1.333	.79	1.88
The Facilities	6.325	5	.001	1.333	.79	1.88
Reliability of service	6.708	5	.001	1.500	.93	2.07
Responsiveness	6.708	5	.001	1.500	.93	2.07
Communication with customers	6.708	5	.001	1.500	.93	2.07
Reputation for honesty	4.000	5	.010	1.333	.48	2.19
Reputation for confidentiality	6.708	5	.001	1.500	.93	2.07
Competence of the personnel	6.708	5	.001	1.500	.93	2.07
Courtesy of the staff	4.392	5	.007	1.500	.62	2.38
Understanding customer's individual needs	4.392	5	.007	1.500	.62	2.38
Convenience of accessibility	3.796	5	.013	1.167	.38	1.96

Proposition 3: Mean Rank

Ranks

	Case source is [DataSet5]	N	Mean Rank	Sum of Ranks
awareness of customer needs	Corporate	8	7.69	61.50
	Institutions	7	8.36	58.50
	Total	15		
Value for money	Corporate	8	8.25	66.00
	Institutions	7	7.71	54.00
	Total	15		
Ability to adapt to customer needs	Corporate	8	7.94	63.50
	Institutions	7	8.07	56.50
	Total	15		
Overall evaluation of the organisation's service quality	Corporate	8	9.19	73.50
	Institutions	7	6.64	46.50
	Total	15		
The Facilities	Corporate	8	7.25	58.00
	Institutions	7	8.86	62.00
	Total	15		
Reliability of service	Corporate	8	5.38	43.00
	Institutions	7	11.00	77.00
	Total	15		
Responsiveness	Corporates	8	8.44	67.50
	Institutions	7	7.50	52.50
	Total	15		
Communication with customers	Corporates	8	10.25	82.00
	Institutions	7	5.43	38.00
	Total	15		
Reputation for honesty	Corporates	8	9.88	79.00
	Institutions	7	5.86	41.00
	Total	15		
Reputation for confidentiality	Corporates	8	8.81	70.50
	Institutions	7	7.07	49.50
	Total	15		
Competence of the personnel	Corporates	8	9.00	72.00
	Institutions	7	6.86	48.00
	Total	15		
Courtesy of the staff	Corporates	8	8.38	67.00
	Institutions	7	7.57	53.00
	Total	15		
Understanding customer's individual needs	Corporates	8	10.13	81.00
	Institutions	7	5.57	39.00
	Total	15		
Convenience of accessibility	Corporates	8	5.50	44.00
	Institutions	7	10.86	76.00
	Total	15		

Proposition 3
Test Statistics b

	awareness of customer needs	Value for money	Ability to adapt to customer needs	Overall evaluation of the organisation's service quality	The Facilities
Mann-Whitney U	25.500	26.000	27.500	18.500	22.000
Wilcoxon W	61.500	54.000	63.500	46.500	58.000
Z	-0.321	-0.253	-0.066	-1.269	-0.793
Asymp. Sig. (2-tailed)	0.748	0.800	0.947	0.204	0.428
Exact Sig. [2*(1-tailed Sig.)]	.779(a)	.867(a)	.955(a)	.281(a)	.536(a)

a. Not corrected for ties.

b. Grouping Variable: Case source is [DataSet5]

Reliability of service	Responsiveness	Communication with customers	Reputation for honesty	Reputation for confidentiality	Competence of the personnel
7.000	24.500	10.000	13.000	21.500	20.000
43.000	52.500	38.000	41.000	49.500	48.000
-2.858	-0.935	-2.250	-1.899	-0.968	-1.195
0.004	0.350	0.024	0.058	0.333	0.232
.014(a)	.694(a)	.040(a)	.094(a)	.463(a)	.397(a)

Courtesy of the staff	Understanding customer's individual needs	Convenience of accessability
25.000	11.000	8.000
53.000	39.000	44.000
-0.500	-2.272	-2.828
0.617	0.023	0.005
.779(a)	.054(a)	.021(a)

Proposition 3
Test Statistics (b)

Proposition 4

Ranks

	client regulation	N	Mean Rank	Sum of Ranks
awareness of customer needs	1.00	9	7.89	71.00
	2.00	6	8.17	49.00
	Total	15		
Value for money	1.00	9	7.44	67.00
	2.00	6	8.83	53.00
	Total	15		
Ability to adapt to customer needs	1.00	9	8.78	79.00
	2.00	6	6.83	41.00
	Total	15		
Overall evaluation of the organisation's service quality	1.00	9	9.50	85.50
	2.00	6	5.75	34.50
	Total	15		
The Facilities	1.00	9	7.44	67.00
	2.00	6	8.83	53.00
	Total	15		
Reliability of service	1.00	9	7.67	69.00
	2.00	6	8.50	51.00
	Total	15		
Responsiveness	1.00	9	8.33	75.00
	2.00	6	7.50	45.00
	Total	15		
Communication with customers	1.00	9	9.00	81.00
	2.00	6	6.50	39.00
	Total	15		
Reputation for honesty	1.00	9	9.11	82.00
	2.00	6	6.33	38.00
	Total	15		
Reputation for confidentiality	1.00	9	7.28	65.50
	2.00	6	9.08	54.50
	Total	15		
Competence of the personnel	1.00	9	7.44	67.00
	2.00	6	8.83	53.00
	Total	15		
Courtesy of the staff	1.00	9	8.17	73.50
	2.00	6	7.75	46.50
	Total	15		
Understanding customer's individual needs	1.00	9	9.50	85.50
	2.00	6	5.75	34.50
	Total	15		
Convenience of accessibility	1.00	9	7.17	64.50
	2.00	6	9.25	55.50
	Total	15		

Proposition 4

Test Statistics (b)

	awareness of customer needs	Value for money	Ability to adapt to customer needs	Overall evaluation of the organisation's service quality	The Facilities	Reliability of service
Mann-Whitney U	26 000	22 000	20 000	13 500	22 000	24 000
Wilcoxon W	71 000	67 000	41 000	34 500	67 000	69 000
Z	-0.131	-0.644	-0.943	-1.837	-0.673	-0.416
Asymp Sig (2-tailed)	0.896	0.520	0.346	0.066	0.501	0.678
Exact Sig [2*(1-tailed Sig.)]	955(a)	607(a)	456(a)	113(a)	607(a)	776(a)

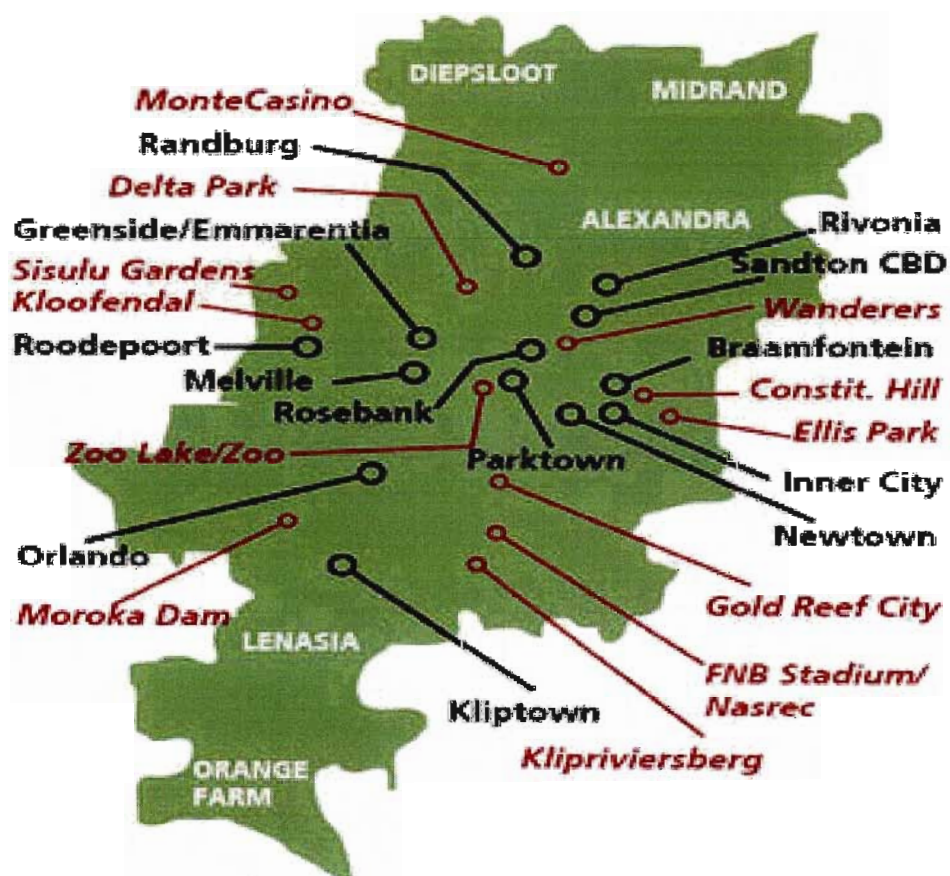
a Not corrected for ties

b Grouping Variable: client_regulation

Responsiveness	Communication with customers	Reputation for honesty	Reputation for confidentiality	Competence of the personnel	Courtesy of the staff	Understanding customer's individual needs	Convenience of accessibility
24.000	18.000	17.000	20.500	22.000	25.500	13.500	19.500
45.000	39.000	38.000	65.500	67.000	46.500	34.500	64.500
-0.816	-1.146	-1.289	-0.986	-0.761	-0.255	-1.837	-1.080
0.414	0.252	0.197	0.324	0.447	0.799	0.066	0.280
776(a)	328(a)	272(a)	456(a)	607(a)	864(a)	113(a)	388(a)

Proposition 4
Test Statistics (b)

Appendix 6 City of Johannesburg Regional map



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15 JANUARY 2007

MS. T MASHAVA (202520370)
GRADUATE SCHOOL OF BUSINESS


Dear Ms. Mashava

ETHICAL CLEARANCE APPROVAL NUMBER: HSS/06912A

I wish to confirm that ethical clearance has been granted for the following project:

"The effects of privatisation of municipal entities on customer service quality: A case study on Johannesburg water (PTY) LTD"

Yours faithfully



.....
MS. PHUMELELE XIMBA
RESEARCH OFFICE

cc. Faculty Office (Christel Haddon)
cc. Supervisor (Dr. N Potwana)