

PRIVATISATION OF TECHNICAL SERVICES AT THE WELKOM CAMPUS OF VISTA UNIVERSITY

By

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Masters of Public Administration at the University of Stellenbosch.**



STUDY LEADER : PROF E SCHWELLA

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DECLARATION

I, the undersigned, hereby declare that the work contained in this assignment is my original work and that I have not previously in its entirety or in part submitted it at any university for a degree.

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DECEMBER 2003

ABSTRACT

Public institutions require financial resources in order to deliver quality services to the community. The survival of each and every organisation primarily relies on the availability and proper management of financial resources in order to provide effective and efficient service to its clients. Section 195 (1) (b) of the Republic of South Africa Constitution Act, 1996 , Act 108 of 1996 compels public institutions to promote and implement mechanisms that will promote efficient , economic and effective use of resources.

South African Public Universities derives larger part of their revenue from the government. The South African government finances South African Universities on the basis of student enrolments. Funding for South African universities and technikons has increased from 10% in the 1996/1997 financial year to 14 % in the 2000/2001 budget. Despite the increase in the financing of the education sector, there were also significant changes in student enrolments at South African universities (Kulati, 2000: 27).

Students are leaving from historically black universities for historically white ones and many more are enrolling at technikons than at universities. There are a number of reasons attributed to the decrease in student enrolment in former black universities. Black universities are perceived to be of inferior status as compared to former white universities in terms of their quality and resources.

It is expected that government subsidies to historically black universities might fall by 26% over the next three years because of the projected decline in student enrolments. Taking into consideration the enrolment linked subsidy , changed enrolment patterns have drastically affected subsidy allocations by the government to most historically black universities such as Vista University.

According to Caruna *et al.*, (1998:55), tertiary educational institutions are required, like business firms, to monitor and adapt to the continuous changed taking place in the political, economic, social

and the technological environment. The affected institutions are compelled to adapt their service delivery mechanisms if they are to remain financially viable in the near future. It is for this reason that the researcher will explore the use of privatisation as an alternative strategy to service delivery.

This study investigate the manner in which activities of the technical services department within Vista University Welkom Campus can be contracted out with an aim of improving cost efficiency within the University. The study developed a normative model which can be used as a guideline in the process of contracting out services and also explain how such model can applied in the process of contracting out activities of the technical services department.

The study further identified the responsibilities of different role players who will in one way or another be affected by the contracting process within the University. The study concluded that for the contracting out process to be cost effective, the University have to adopt a seasonally priced contract which reduces activities of the service producer in winter and concentrate activities of the service producer in summer.

OPSOMMING

Openbare instellings benodig finansiële hulpbronne om 'n gehalte diens aan die gemeenskap te lewer. Die voortbestaan van elke organisasie berus primêr op die beskikbaarheid en behoorlike bestuur van finansiële hulpbronne om 'n effektiewe en doeltreffende diens aan kliënte te lewer. Afdeling 195 (1) (b) van die Grondwet van die Republiek van Suid Afrika, 1996, Wet 108 van 1996, verplig publieke instellings om meganismes te implimenter en bevorder wat doeltreffende, ekonomiese en effektiewe gebruik van hulpbronne verseker.

Suid Afrikaanse openbare universiteite verkry die grootste gedeelte van hulle inkomste vanaf die regering. Hierdie finansiering geskied volgens die aantal geregistreerde studente by die onderskeie universiteite. Bevonding vir Suid Afrikaanse universiteite en teknikons het gestyg van 10% in die 1996/1997 finansiële jaar tot 14% in die 2000/2001 begroting. Ten spyte van die finansiering van die opvoedkundige sektor, was daar beduidende veranderinge in die studente getalle by Suid Afrikaanse universiteite (Financial Mail, 31.03.2000).

Studente verlaat historiese swart universiteite om by historiese blanke universiteite in te skryf en meer studente skryf by teknikons in as by universiteite. Daar is 'n aantal redes waaraan die afname van registrasies by historiese swart universiteite toegeskryf kan word. Voormalige swart universiteite word as minderwaardig betreffende gehalte en hulpbronne beskou, in vergelyking met voormalige blanke universiteite.

Die verwagting is dat staatsubsidies aan historiese swart universiteite met so veel as 26% oor die volgende drie jaar kan daal, as gevolg van die geprojekteerde daling in studente getalle. Gegewe die feit dat subsidie gekoppel is aan studente registrasies, het die verandering in studente registrasie patrone 'n drastiese invloed op die subsidie toewysing op meeste historiese swart universiteite, waaronder Vista Universiteit resorteer.

Volgens Caruna et al., (1998:55), word daar van tersiêre instellings (net soos van besigheidsfirmas), verwag om by die veranderende politieke, ekonomiese, sosiale en tegnologiese omgewings aan te pas. Die instellings wat geraak word, gedwing om hul dienslewingsmeganisme aan te pas om finasieel lewensvatbaar te bly. Om hierdie rede gaan die navorser privatisering as alternatiewe strategie tot dienslewering ondersoek.

Hierdie studie ondersoek maniere om aktiwiteite van die Tegniese Dienste Departement uit te kontrakteur met die uitsluitlike doel om koste effektiwiteit binne die Vista Universiteit te bewerkstelling. Die studie poog ook om 'n normatiewe model te formuleer en te implementeer om bogenoemde aktiwiteite te rugsteun. Die studie verduidelik ook hoe so 'n model die uitkontrakteur van Tegniese Dienste lewering kan assisteer en komplimenteer.

Die studie identifiseer ook verskeie rolspelers wat deel sal vorm van die voorgestelde proses en wat ook direk en indirek deur die proses geraak en geaffekteer sal word. Die studie kom tot die slotsom dat die proses van uitkontraktering van Tegniese Dienste, kostebesparings binne die universiteit sal bewerkstellig.

Die universiteit moet 'n stelsel implementeer wat seisoensgebonde is asook prysgebonde strukture daar stel wat die aspek van koste effektiwiteit sal aanspreek.

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1.1 INTRODUCTION	

This research focuses on the activities of Vista University's Wilkom Campus. Vista University was established in 1982 in terms of the Vista University Act of 1981, Act 105 of 1981. It was established after the recommendations of a commission of enquiry which was appointed in 1973 to investigate educational needs of urban older within the Republic of South Africa (Education Policy Unit, 1985:2).

Vista University is one of the 21 public universities offering higher education in the country. It was established with a central administrative office situated in Pretoria. It offers both full time and part time classes in its seven, confined tuition campuses which are situated in Marwick, Soweto, Bloemfontein, East Rand, Wilkom, Sebokeng and Port Elizabeth. It also offers distance education through the Vista University Distance Education Campus in Breklyn. The primary aim for the establishment of the distance education campus was to improve the qualification of teachers through distance learning.

Vista University initially offered education to 41 university students and 10000 students who were a result of a network of subsidies provided by the government. The students further applied for the non-payment of fees by students. Vista University staff members have increased from 1000 in 1985 to 1740 in the year 2000 indicating the growth of the university. The total number of students in 2000 was 1740. The student fee also increased from R 1000 in the financial year 1985/86 to R43 740 in 2000. The total number of students in 2000 was 1740. The total number of students in 2000 was 1740.

CHAPTER 1

GENERAL OVERVIEW

1.1 INTRODUCTION

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Vista University like any other historically black university is experiencing financial problems which are a result of a decrease in subsidies provided by the government. The problem is further aggravated due to non-payment of fees by students. Vista University staff members have increased from 1689 in 1996 to 1743 in the year 2000, while during the same period student enrolments have declined from 32172 to 22455. The student debt also raise from R8 498 688.31 m in the financial year 1996/97 to R48 744.092.46 in the financial year 1999/2000. The total debt now stands at R83 635 464.34).

Although the University is experiencing financial difficulties which are caused by external factors beyond their control, certain quarters of the University are of the opinion that the problem is worsened by the mismanagement of resources within the technical services department. A number of staff members, including employee organisations, have voiced their concern in the manner in which the University's resources are being utilised in the performance of the technical services function at the expense of the core businesses of the University, which are teaching, research and community service.

It is therefore necessary that the University should look at alternative strategies to utilise the current financial resources efficiently and effectively if it has to survive in the long run. It is against this background that the researcher has explored the question of the privatisation of technical services as an alternative strategy to promote cost-effective service rendering of the education function.

1.2 PROBLEM STATEMENT AND HYPOTHESIS

The problem to be considered in this study is: what effect does privatisation have on the on cost effectiveness in rendering activities of the technical services department?

For the purposes of this research it can be assumed that privatisation of technical services is the appropriate strategy to improve cost effectiveness or cost savings within the University.

As part of the objectives of this study, the researcher investigates the manner in which technical services are delivered to determine their suitability for privatisation. The study further focuses on the development of a model for the privatisation of technical services within Vista University's Welkom Campus.

1.3 RESEARCH METHODOLOGY

This research employed a qualitative methodology in collecting data. The data was primarily collected from primary and secondary sources (Brynard & Hanekom, 1997: 28-29). A literature study was primarily used to explain the theoretical basis of privatisation.

Interviews, observation and a literature survey will be used as methods for data collection. All members of the management committee were interviewed. Permission was requested from the Campus Principal to hold interviews on the topic under discussion.

Interviews were primarily used to evaluate opinions from the members of the Vista Welkom Campus Management Committee about the manner in which the technical services function is carried out. They were further used to ascertain whether privatisation is the most appropriate option to provide a cost effective service.

1.4 CLARIFICATION OF TERMS

Department : refers to the organisational unit responsible for carrying out the technical services function within Vista University Welkom Campus.

Competitive tendering: the process by which an institution assigns part of its functions to an outside body.

State owned enterprises : refers to enterprises or productive assets owned fully or partially and directly or indirectly, by the state.

Efficiency: actions of public institutions which result in the achievement of objectives at the lowest cost.

Effectiveness: actions of public institutions, which result in the achievement of objectives.

A number of concepts which have been used in this study are defined within chapters in which they are found.

1.5 OUTLINE OF CHAPTERS

Chapter 1: provides a general orientation to the study.

Chapter 2 : explains the theoretical basis of privatisation, specifically focusing on the meaning of the concept, its objectives of privatisation, the classification of goods and the different forms of privatisation.

Chapter 3: outlines steps which should be used by an organisation during the process of competitive tendering. These steps provide for a normative model for privatisation for Vista University Welkom Campus.

Chapter 4: gives a description of technical services within Vista University Welkom Campus and further provides for an evaluation on the possible responsibilities of all the affected role players to be involved in the process of contracting out.

Chapter 5: provides recommendations and conclusions to the study.

1.6 CONCLUSION

Chapter 1 provided for the background of Vista University in a form of an introduction, statement of the problem and hypothesis in this study. The method of research, clarification of terms, outline of chapters was also given. The following chapter provides a theoretical basis of privatisation, specifically focusing on the meaning of the concept of privatisation, its objectives of privatisation, classification of goods and the different forms of privatisation.

CHAPTER 2

THEORETICAL FRAMEWORK OF PRIVATISATION

2.1 INTRODUCTION

This chapter discusses the theoretical basis of privatisation, paying attention to the meaning of the concept privatisation, pressures influencing organisations to privatise, which, amongst others, include, pragmatic, populist, commercial, ideological, and financial pressures and the impact of globalisation trends. An explanation is given of the following concepts, a consumer, a service producer, and a service arranger or provider.

A classification of goods and services in terms of their characteristics is provided, namely, exclusion, consumption and exhaustibility. Given the above classification, goods and services are divided into categories of private goods, collective or public goods, toll goods and common pool goods. Such a classification will help to identify the types of goods and services which may be more suitable for privatisation.

Lastly, an explanation is given of the different forms of privatisation, such as deregulation, divestiture, franchise, voucher, grant, market, government service, intergovernmental service arrangement, self service, voluntary service, contracting out, public private partnerships, management contract, and leases. An explanation is given of the forms of privatisation with the aim of gaining more insight on the process. This enables the researcher to identify the form(s) of privatisation which is/are more appropriate for Vista University as the focus area of this study.

2.2 DEFINITION OF PRIVATISATION

Privatisation refers to the transfer of functions or assets from a public to a private organisation. Such a transfer can either be whole or partial, and can also be temporary or permanent (Otto *et al.*, 1991:109). Privatisation can also be understood as the transfer of either control or ownership from a public to a private organisation. Control can be transferred from a public to a private organisation while ownership still remains with the public organisation although there are instances wherein both control and ownership are transferred to the private sector (Lavigne, 1999:162).

Transfer of ownership normally manifests itself in countries where government legislation provides for the existence of state-owned enterprises. The government should first abolish legislation providing for the establishment of a state-owned enterprise before ownership can be transferred to private organisations (Bouin & Michalet, 1991:114).

However, there are instances where ownership or control can be transferred to a private organisation without any change in government policy. This normally occurs when the government adopts forms of privatisation such as contracting out, franchise, grant, or the voucher system.

The definition of privatisation also includes measures or policies which are aimed at strengthening and expanding the role of private organisations in the economy or in the production of public services. Such measures include forms of privatisation such as liberalisation, restructuring or deregulation (Bouin & Michalet, 1991:114). Under these circumstances, the government will be primarily involved in formulating legislation which controls or regulates activities of private organisations (Parry, 1990:19).

It may also mean making existing state-owned enterprises, work as market oriented organisations preparing them for further privatisation or leaving them in state ownership (Lavigne, 1999:162).

Through privatisation, activities of public organisations are exposed to market forces such as demand and supply, and competition. Competition amongst service producers eventually leads to better utilisation of resources (Parry, 1990:19).

Privatisation may further be defined as the legal transfer of property rights from the state to private organisations. Other definitions may include all measures contributing to the de-statisation of economic activities (Lavigne, 1999:162). The privatisation of services is introduced in different organisations based on various factors. The following section will focus on the reasons or objectives behind the privatisation of services.

2.3 REASONS OR OBJECTIVES BEHIND THE PRIVATISATION OF SERVICES

Privatisation of public services is implemented within public organisations based on different factors ranging from, pragmatic, ideological, commercial, populist and financial factors to the impact of globalisation trends.

2.3.1 Pragmatic reasons

All governments are faced with the basic economic problem of scarce resources and unlimited demands from the community. The government should devise strategies which are aimed at maximising benefits to the community with less inputs or resources. Privatisation is one of those alternatives which the government can consider to solve this problem (Savas, 1987:4).

According to some theories about the role of the government in the economy, private organisations are perceived to be efficient as compared to public organisations. According to Curwen (1986:165 -166), there are reasons why public organisations are less under pressure to be efficient than private organisations, which are:

- ✓ they do not have to raise capital in the capital market, nor
- ✓ produce goods and services in conformity with the open market, nor
- ✓ produce goods and services in conformity with the wishes of consumers, nor
- ✓ will they be declared bankrupt or be taken over.

Even if public organisations were trying to be efficient, sometimes they are required to pursue activities that will help the government to achieve socio-economic objectives in other sectors of the community (Curwen, 1986:165-166). From the above analysis, one can deduce that public organisations have little economic incentives to achieve efficiency in the delivery of services (Otto *et al.*, 1991:119).

On the other hand, private organisations exist to make profit. The pursuit of profits and the promise of personal financial gain for owners and managers create powerful incentives to increase production. Efficiency will be increased through privatisation only if there is a market environment with many willing buyers and sellers, accompanied by the absence of barriers to entry and exit. The influence of market competition, and the need to earn profits provide incentives that are needed for privatised organisations to seek out better and cheaper ways to provide their goods and services (Curwen, 1986:166).

Again, market prices, if determined by forces of supply and demand give managers information about the relative scarcity of resources and help them to optimize their allocation. Free competition ensures that no firm can pursue monopolistic pricing. Private ownership ensures that people have a personal interest in the performance of their organisations (Ambros, 1993 :2).

Market forces further encourage efficiency by linking the economic well-being of the producer to the cost of production. In the market environment the pressure of competition as well as potential entrants into the market, acts as a powerful disciplining force on organisations to be efficient in order to survive (Fourie & Burger, 2000: 698-699).

Lastly, private organisations normally utilise the services of temporary or contract workers as compared to public organisations, which are bogged down by standardised salary payment regulations. Such regulations eventually lead to the high cost of providing services (Henry, 1995:320). Some public officials advocate privatisation as an important mechanism for better public management and as the key to more cost-effective management. Efficiency in public organisations results in an increase in the quality of public services (Fourie & Burger, 2000:697).

2.3.2 Ideological reasons

Goods and services consumed by the society are supplied individually by private organisations and collectively by public organisations . In countries which practise a socialist economic system, the government plays a primary role in the provision of services, while in countries which practise a free market economic system, most goods and services are provided by private organisations.

Certain sectors of the community believe that private organisations are in a better

position to provide quality services as compared to public organisations. Public officials are perceived to be lazy and corrupt. Furthermore the community believe that the government adopts outdated, rigid, unresponsive and bureaucratic methods in providing services. On the other hand, private organisations are perceived to be flexible and responsive to the needs of their clients (Savas, 1987:5).

The government normally provides services at a price below the actual cost of production. Certain services are provided to the society taking into consideration the socioeconomic conditions of the people. The government may provide services especially targeted at poor communities. Certain services might also be provided for free. Political and economic philosophers advocate for a reduction of the role of the government and an expansion in the role of the private sector in the provision of services (Savas, 1987:7).

2.3.3 Commercial reasons

Some proponents of privatisation believe that much of the services provided by public organisations consists of routine commercial activities which are in no way related to them, for example, the maintenance of buildings, grounds, and vehicles. They propose that these activities must be taken over by private organisations where there is a potential for innovation motivated by exposure to market forces such as demand and supply. Public organisations should only provide goods and services which have some degree of public interest (Savas, 1987:7).

Commercial pressures normally come from potential service producers who perceive mismanagement, underutilisation, and wasteful practices within public organisations or in industries protected from competition.

According to Lipton and Simkins (1993:129), private ownership places only one

agent (the manager) between the shareholder and his or her capital. State ownership, on the other hand involves two agents, that is, politicians and managers are placed between the voter and his or her capital. Taking into consideration the latter circumstances, certain managers of public organisations often have to put more emphasis on measures which are aimed at fulfilling aspirations of political leaders at the expense of organisational objectives.

2.3.4 Populist reasons

Proponents behind this line of thinking are against both ideas of a big government and big business. They advocate the strengthening of local organisations owned by the local community. These voluntary organisations provide safety to the society and help arriving at an adaptive equilibrium among the conflicting goals of freedom, justice and efficiency.

Proponents of this view advocate privatisation because it enhances choice and further affords opportunities for strengthening traditional organisation thus reinforcing a local sense of community (Savas, 1987:8).

2.3.5 Financial reasons

Public managers are continuously faced with budget deficits and spending restrictions. They are looking at alternative strategies that will enable them to provide better services at the least cost. Privatisation is considered to be one of the strategies that will enable them to continue delivering acceptable levels of service at a reduced budgetary cost.

State-owned enterprises promote national economic and social goals by performing effectively thereby generating surpluses. These surpluses have a positive

contribution to the national budget. They can be used to reduce the level of public debt. Furthermore, privatisation through capital markets generates substantial revenues to the state from transfer of ownership (Mohan,1995:22).

Free market advocates argue that wide-scale privatisation broadens the tax base since the public sector enterprises do not pay taxes (McGregor,1987:18).

2.3.6 The impact of globalisation trends

Most governments are now considering strategies aimed at attracting foreign direct investment flows through privatization of services. Such strategies help to bring privatising countries into a global network of multinational investment cooperation as new strategic alliances are created amongst private organisations (Woods, 2000:59 - 60).

The globalisation process focuses on the liberalisation of economies as a way to ensure the free flow of capital from countries that are competitive and where labour is cheap (Shirley, 1988 :8).

Individual state enterprises are forced to be competitive and efficient in the domestic and global markets. They are putting themselves in strategic positions to access global resources and markets in order to survive. Current trends put more emphasis on cutting down on state expenditure and selling state assets to the private sector. Globalisation influences state-owned enterprises to make improvements in corporate governance within the public sector to allow for effective asset management, investment policies, accountability and transparency (Martin, 1996:19).

Globally, emphasis is placed on measures that result in economic growth and employment creation. In order to achieve this, countries are transforming their

economies from state ownership to private ownership of resources (Pinto, 1998:387).

In underdeveloped and developing countries, some pressure to privatise comes from international organisations such as the World Bank and the International Monetary Fund. These organisations expect countries who are recipients of their funds to adopt privatisation policies before they can obtain financial assistance (Mohan, 1995:2).

In understanding the involvement of private organisations in delivering public services one needs to differentiate between service provision, production and delivery. Such a differentiation is the focus of the following section (Pinto, 1998:390).

2.4 PARTICIPANTS IN THE DELIVERY OF SERVICES

There are three participants involved in the delivery of services, namely, a service consumer, a service producer and a service provider or arranger.

2.4.1 Service consumer

Service consumers refer to recipients of a service. They include, amongst others, an individual household, anyone residing in a defined geographical area or a class of individuals with common characteristics, i.e, poor people, students, the aged, the sick or the unemployed (Savas, 1987: 60).

2.4.2 Service producer

A service producer refers to an organisation or a body which actually or directly delivers a service to the consumer or the clients. It can be a central, provincial or local government department, a voluntary organisation, a non governmental

organisation or a private organisation (Pinto, 1998:390).

2.4.3 Service provider or arranger

A service arranger or provider is an organisation which or individual who actually has the authority to select a service producer. With regard to collective goods, a service arranger is an organisation which has the authority to determine the demand of a particular service or the one which holds the responsibility to satisfy a specific demand (Savas, 1987:60).

In most instances, a service provider is a public organisation which is responsible for policy formulation. A policy provides a framework on how services will be delivered to the community. There are instances where a service provider is a voluntary body or a private organisation. Under a government service, a public organisation often is both a service provider and service producer (Pinto, 1998: 390).

The consumer, the producer and the arranger of a service are connected by action flowing from the authorisation of the service, the payment for it, and its delivery. Therefore the service provider authorises the production of a service, the service producer delivers and either the provider or the service consumer pays for the cost of production. In order to determine which goods are suitable for privatisation, there is a need to classify goods and services in terms of their characteristics.

2.5 CHARACTERISTICS OF GOODS AND SERVICES

Goods and services provided to the community have different characteristics. Their nature will determine whether a public or a private organisation will be more suitable to provide the service (Butler, 1985:31).

According to Gildenhuys (1993:31), there are three properties which can be used to classify goods and services, namely, exclusion , consumption and exhaustibility.

2.5.1 Exclusion

Goods and services have a property of exclusion if a service producer has the capacity to devise criteria which are used to deny a consumer access to their consumption. Consumers will only have access to them if they can afford their market price (Gildenhuys, 1997: 31-32).

They also have characteristics of exclusion if the service producer is able to withhold benefits or costs associated with the service from others. One can rank them according to the cost of setting up and enforcing a private property right (Starrett, 1988:43).

On the other hand, they have a characteristic of non-exclusion when they can be enjoyed by anyone regardless of whether they contribute to their provision. The goods can be enjoyed by everyone, as long as someone is creating or providing them (Otto et al., 1991:117).

In addition, they have characteristics of non-exhaustibility if their consumption by one individual does not reduce the amount available to others, and it is therefore not necessary for a service producer to appropriate or divide them. Thus once they are made available, they are equally available to all individuals without decreasing in quantity (Gildenhuys, 1997:32).

2.5.2 Consumption

Goods and services can be consumed either by individual consumers or by a group

of consumers. Individual consumption can be made of those goods which can be divided or apportioned into units and be sold at a specific market price. Only individuals who can afford their price will have access to them (Butler, 1985:49).

A good is characterised or has features of joint consumption if it can be consumed simultaneously by a number of consumers without any decrease in its quality and quantity. The use of such goods by one person does not detract from or prevent its use by another person (Otto *et al.*, 1991:117). According to Gildenhuys (1993:31), such types of goods cannot therefore be divided into consumption units and cannot be supplied per unit according to a market demand.

Characteristics of goods and services are used to draw a distinction amongst various types of services. The following paragraphs pay attention to this classification of goods and services. A classification of goods and services is aimed at identifying those which are suitable for privatisation.

2.6 TYPES OF GOODS AND SERVICES

There are four types of goods and services which can be identified, namely as, private, common pool, collective or public, and toll goods. They are classified taking into consideration the characteristics of exclusion, consumption and exhaustibility (Gildenhuys, 1993:31).

2.6.1 Private goods

They are supplied by service producers at a certain market price taking into consideration forces of demand and supply. The market price of these goods is determined taking into consideration their cost of production. Once private goods have been paid for, ownership can clearly be determined (Black *et al.*, 1999:17).

Private goods have a characteristic of rivalry in consumption. They are wholly divisible or apportionable amongst individuals, which means that one person's consumption of the good reduces its availability to other potential consumers. If one person wears a shoe, for example a second person cannot wear the same shoe. Thus private goods have all the characteristics of exclusion, individual consumption and exhaustibility (Black *et al.*, 1999:17).

2.6.2 Common pool goods

These are goods provided by nature. They can be consumed individually although exclusion is difficult. The government provides protective or regulative measures in order to control their consumption, for example, quotas used in the consumption of sea fisheries. Common pool goods are services that can be exhausted by many people (Box, 1999:30).

2.6.3 Collective/public goods

These types of goods cannot be divided into saleable units. They are non-rival and non- apportionable in consumption. Once they are made available, they are equally available to all potential consumers. For a given level of production of public goods, one person's consumption does not reduce the quantity available for consumption by another person. The marginal cost of admitting additional users is zero.

It is impossible to exclude particular individuals from consuming such goods. It is not possible, however, to assign a specific property right, much less to enforce it. They are consumed by all the members of the community without their directly contributing to their cost of supply, for example, defence services (Black *et al.*, 1999:18).

There are other types of activities that require governmental intervention if their

output has to be optimal. They do not necessarily require direct government provision. A major example consists of activities for which exclusion is possible but which give rise to externalities. Their production and consumption give rise to benefits and cost to persons other than those who acquire the goods.

Public goods cannot be offered to the private organisation with the aim of making a profit. One person's use of public goods does not exhaust their usefulness to others. Because consumers could experience the benefits of public goods without paying for them, private organisations cannot estimate demand, expected sales, profits or their viability. Public goods often result in market failure due to the inability by private organisations to determine the level of consumption and allocate prices. It is necessary to have some form of collective action with recourse to sanctions to force individuals to pay their fair share of the cost (Box, 1999:30).

2.6.4 Toll goods or mixed goods

Toll goods are consumed collectively although consumers pay as individuals. A service producer is able to deny or exclude consumption of the service or goods (Box, 1999:30).

Toll goods and services should be rendered by public authorities because of their positive externalities generated to the advantage of the whole community. Some particular goods or services may also generate negative externalities to the detriment of the community. Such goods should either be regulated or be delivered by a public organisation (Gildenhuys, 1993:33).

In terms of the public choice theory, the nature of a good or a service determines whether it should be provided through the market or through government action (Otto, et al., 1991:117). However, the difference in classification does not prevent

governments from supplying any of the type of goods mentioned above. To determine whether a public or private organisation will provide a specific good also depends on the form of privatisation adopted by the responsible organisation. The following section provides different forms of privatisation which can either be applied to the whole organisation or to a specific organisational unit within an organisation. An explanation on the different forms of privatisation further clarifies the meaning of the concept privatisation.

2.7 FORMS OF PRIVATISATION

The following sections will pay attention to different forms or methods of privatisation which can be utilised by public organisations. They include amongst others, deregulation, withdrawal, commercialisation, divestiture, voucher, franchise, grant, market, voluntary service, intergovernmental service agreement, self service, contracting out, co-production, partnership or joint undertaking, management contracts and leases.

2.7.1 Deregulation

Deregulation is often used in countries where there is an existence of state-owned enterprises. State-owned enterprises are generally found in socialist countries where the government plays a bigger role in the economy. In capitalist countries, state-owned enterprises are established with the aim of fulfilling certain strategic objectives, such as, monopoly control, economic planning and development, power and influence, defence or military strategy, and efficiency and effectiveness (Gildenhuys, 1993:36).

State-owned enterprises are generally established as sole producers of a service. They are protected against competition by means of government legislation from

other potential service providers, and that is, they enjoy a protected monopoly. The process of deregulation involves the removal of legislation which protects state-owned enterprises against competition from other potential service producers. According to Butler (1985:36), licensing barriers which prevent other potential producers to compete with state-owned enterprises are removed in deregulation (Central Economic Advisory Service, 1993:76).

Deregulation of the economy or market liberalisation involves a change in the policy framework which provides for the establishment of state-owned enterprises and control of their activities. This is aimed at creating a more competitive market environment which according to some economists, will eventually lead to better utilisation of resources (Commonwealth Secretariat, 1994:4-5).

Deregulation further provides an opportunity for potential service producers to enter a sector which is monopolised by a state-owned enterprise. Deregulation is considered if the existing state enterprise is perceived to be viable and has the potential to survive in a highly competitive market environment. In cases where the strategy of deregulation is considered in a sector where the existing state-owned enterprise is not viable, the government can decide to give some form of financial assistance or restructuring in order to make the state-owned enterprise more profitable (Woods, 2000:590).

State-owned enterprises should be restructured to the extent that they will not require government subsidies. Restructuring of the economy can involve the elimination of wage and price controls, subsidies and incentives schemes, the streamlining of customs procedures and the abolition of all trade barriers (Handley & Mills, 1996:171). This will further help the state owned enterprise to compete with service producers including multinational companies which are already espoused to highly competitive environments (Financial Mail, 1995:77).

Considering the other side of events, the regulation of market activities can be considered as a necessary policy instrument if market mechanisms are unable to fulfil their social and resource-utilisation role effectively as a result of deficiencies in the economic structure (Central Economic Advisory Service, 1993:75).

Additional regulation can be made in the form of a competition policy. This is a policy aimed at avoiding the concentration of economic power on cartels or conglomerates. The concentration of economic power often results in uncompetitive behaviour such as horizontal price collusion, whereas uncontrolled competition often results in take overs and acquisitions which further degenerate into monopolies, which the government is trying to avoid by means of deregulation.

According to the Central Economic Advisory Service, (1993:71), a competition policy should be based on the following principles:

- ✓ pragmatism, consistency, and justice;
- ✓ effectiveness and cost efficiency; and
- ✓ accountability to the public and co-ordination.

2.7.2 Withdrawal

Withdrawal or load-shedding is a term that refers to government actions aimed at terminating the provision of goods and services and allowing them to be supplied by the market or by voluntary arrangements, more especially, public services which become redundant or those services of which their benefits do not justify their cost (Otto *et al.*, 1991:110).

The government withdraws from a particular sphere of activity, either at once or in phases, or it maintains its involvement at a specific level and does not expand. In

this way, private organisations are able to enter the particular sector, or expand their involvement in it (McGregor, 1987:94).

2.7.3 Commercialisation

Commercialisation can be defined as a process directed at establishing private sector management principles, values, practices and policies within public organisations (Brynard, 1995:2). This could also involve incorporating features of a private organisation such as performance pay, a procurement and a budgeting system (Bruno & Pleskovic, 1996:20). Once public organisations commercialise, they will be managed on a profitable basis, looking at principles of cost effectiveness and cost-benefit analysis.

According to Mohan (1995:2), state-owned enterprises should ensure that they attain an efficient cost structure, that pricing is market-oriented and free from cross-subsidies, and that they are under constant challenge from competitive markets in respect of their products.

Commercialisation involves a formal process of giving a legal identity to the state-owned enterprise. This can also involve changing the name of the state-owned enterprise. A new management structure is established (with clear rules for selecting managers and board members) and the organisation is thereupon supposed to operate according to profit-maximising behaviour in a competitive environment (Lavigne, 1999:168).

Part of the commercialisation process can involve transformation of a state-owned enterprises into a joint stock company, with several operating divisions with the state remaining the sole shareholder (Lipton & Simkins, 1993:129).

Commercialisation can be used in an organisation to prepare it for further privatisation. Successful public enterprises are easier to sell than unsuccessful ones. To make a state-owned enterprise successful for sale, the government should adopt a set of turnaround strategies involving financial and management restructuring. This might also include the formulation of a strategic plan which involves identification of new opportunities and strategies (Mohan, 1995:8).

For successful transformation, a state-owned enterprise should have a substantial amount of freedom from political interference in technical and managerial decisions, a large degree of financial authority and substantial flexibility in selecting personnel who understand and can deal effectively with the private sector. There should be cooperation between chief executives of state-owned enterprises and government officials of the relevant ministry. They should be able to negotiate an agreement on objectives and profitability, autonomy, and accountability, and on mechanisms such as the performance contract (Mohan, 1995:8).

During the restructuring process, the government must create conditions that will allow the privatisation of a state-owned enterprise to succeed. Such mechanisms guarantee the organisation's financial accountability, assure the transparency of its procedures to prevent conflicts of interest, and encourage private sector participation in the privatisation decisions that may be necessary to protect the public interest (Rondinelli & Iacono, 1996:253).

There should further be an existing organisation to support the transformation of state owned enterprises. This includes programmes to foster and support an effective system of property rights, financial institutions, labour markets, legal institutions that can legitimize business transactions and adjudicate or resolve conflicts effectively, and marketing and distribution channels (Mohan, 1995:2).

2.7.4 Divestiture

This is one of the strategies used to denationalise industries. Through this method, the government can sell any of its assets, functions, liabilities or personnel to a private organisation, including members of the public, depending on the method of divestiture under consideration. Public assets or functions are mostly sold to the private sector in cases where they have become redundant and they are not able to generate profit (Savas, 1987:243).

Unprofitable enterprises in competitive sectors could be privatised in their whole or in part by selling profitable segments or subsidiaries to the private sector. If socio-economic conditions in a country do not allow for the selling of a state-owned enterprise as a whole, it may be possible to sell part of the shareholding to the public. As long as the government retains control, partial divestiture is not true privatisation, but it can be one way of raising capital in countries which are in dire need of money as one of the objectives behind the privatisation of services (Savas, 1987:243).

In this study, three types of divestiture are identified and explained below, namely, public flotation, private sales and management or employee's buy-out.

2.7.4.1 Public flotation or public offering

Ownership of a state-owned enterprise is transferred from the hands of the government to members of the public. Through public flotation, the government sells its shareholding in the state-owned enterprise to members of the public through a formal capital or stock market.

Under this type of transaction, the state sells to the public all or large blocks of the

stock it holds in a whole or partly owned state owned enterprise, which is assumed to be a going concern set up as a public limited company. When the government decides to sell only a portion of its holding, the result is state-private ownership of the enterprise. The government normally pursues this approach as a deliberate policy to maintain its presence or as a first step toward full privatisation.

Government's shareholding in a state enterprise is sold either at a fixed price or on a tender basis, and shares can be sold in a local or international stock market. The sale may be complete, where the whole part of the shareholding is sold, or partial where the government only sells a proportion of its shareholding (Commonwealth Secretariat, 1994:11-12).

If the objective is to achieve widespread share ownership or target certain segments of the investing public, special mechanisms such as incentives and restrictions can be used. There may be restrictions on the size of individual shareholdings on purchases by foreigners. In heterogenous societies, incentives can be given to certain sectors of the community (Finance Week, 2001:14).

Certain countries sell their state-owned enterprise by issuing vouchers to all citizens. The vouchers can be used to bid for shares in privatised companies, or they can be sold to other investors. The government selects a target group of companies and issues vouchers or coupons with some nominal value and sells or gives them away to its citizens. State-owned enterprises can then be auctioned off on a later date.

Some voucher programs differ in the method used to determine the clearing price of a given stock. Perceptive bidding can be used if people bid for a given stock. If the number of bids and the number of shares do not match, the price per share is revalued, and respectively devalued until the bids match the stock on offer. In certain

types of biddings, citizens are allowed to exchange their vouchers for cash, or bid for a company of their choice. This system provides opportunities for ordinary people to own property and capital (Goldsmith, 1996:116 -117).

According to Ambros (1993:20), before a public offering becomes successful, the following conditions should be met :

- ✓ the enterprise should be able to generate profit, or it should be restructured to become so;
- ✓ a full body of financial, management and other information must be made available or this information can be prepared for disclosure to the investing market;
- ✓ there should be a discernible liquidity in the local market;
- ✓ either the equity markets are developed or there is some structured mechanism (including a regulatory body) that can be made to reach, inform and attract (as well as protect) the general investing public; and
- ✓ it should meet a governmental objective to encourage widespread share ownership

If the state-owned enterprise is not a strongly performing public limited company with a reasonable track record, the enterprise needs to be carefully restructured or readied to make the public offering feasible.

2.7.4.2 Private sales

According to the Commonwealth Secretariat (1994:12), private sales involve the sale of all or part of the shareholding of a state enterprise to a single purchaser or a group of purchasers. Private owners may be private individuals as well as legal entities, including foreigners. The transactions may be private placements with institutional investors or a trade sale to other private organisations. In both cases, the enterprise is sold as a going concern set up in the form of a corporation represented by shares.

The sale of government's shares in a state-owned enterprise can be handled in a variety of ways. Two common ways are, a fully competitive bidding process, with pre-qualification of bidders, and direct negotiation with potential purchasers accompanied by ad hoc procedures for identifying potential buyers. The government have options to sell the whole state-owned enterprise as an entity or sell one or more activities or subsidiaries (Shirley, 1988:17).

In a situation where part of the shareholding has already been owned by private organisations, the government can simply sell the remaining shareholding to existing private shareholders.

2.7.4.3 Management or employee buy-out

According to the Shirley (1988:30), the term management or employee buy-out refers to the acquisition of a controlling shareholding by either employees or a group of managers. In the event that the employees or managers of the enterprise do not have the funds to buy shares, finance can be obtained by borrowing against the assets of the same state-owned enterprise.

In some of the buy-outs, a state holding company is created through an equity issue subscribed to largely by management and employees. State holding companies can be established to take over the ownership and management of an enterprise until such time they are transferred to the private sector.

As part of the transaction, the government can decide to give each employee a number of free shares. Widespread share ownership promotes greater interest by members of the community in the performance of a commercial enterprise, and therefore, the market principles driving the enterprise to perform will be greater. Management or employee buy-out requires the presence of competent and skilled management and a committed and stable work force. A strong cash flow potential is usually a precondition for obtaining credit for a buy-out (Mohan, 1995:21).

2.7.5 Voucher

With the voucher, the government provides financial assistance to consumers in the form of a subsidy. It is aimed at assisting specific individuals within the community who do not have the capacity to afford certain goods and services in the market. It provides an opportunity to the consumer to make a choice between or amongst different service producers and to identify the service producer who can best satisfy his or her demand (Starling, 1998:140).

A voucher has a certain monetary value which can be supplemented by cash if the price of the product the consumer wishes to purchase is higher than the monetary value of the voucher (Savas, 1987:78).

2.7.6 Franchise or concessions agreements

The use of franchise and concession agreements involves the delivery of services

by a private organisation, with payment made directly to the organisation by citizens. The government awards the right to provide a service to one or more organisations and may also impose price controls, service standards, and requirements to service all customers within that area.

There are two types of a franchise, an exclusive franchise and a non-exclusive or multiple franchises. Under an exclusive franchise, the government identifies a single organisation as the sole provider of a service whilst in a non-exclusive franchise, the government identifies more than one service producer (Starling, 1998:36).

The government serves as the arranger of the service and pays the producer for contracted services, but the consumer pays the producer for a franchise service. The franchise arrangement is suitable for the provision of toll goods.

2.7.7 Grant

Under a grant arrangement, financial contributions are made by the governments to private organisations or individuals to encourage them to deliver a service at a reduced cost to consumers the intention being to reduce the price of the product to make it more affordable to consumers. Such financial contributions or subsidies can be in the form of tax exemptions, tax benefits and interest free loans or loan guarantees.

The government identifies service producers who will receive a grant and the consumer chooses a specific producer. Both the government and the consumer make payments to the service producer. The difference between the voucher and the grant system is that with the voucher system the consumer receives the subsidy while it is received by the producer in the grant system (Savas, 1987:77).

2.7.8 Market

In a market arrangement, goods and services are provided by private organisations to customers taking into consideration forces of supply and demand. Consumers freely choose service producers of their choice who in their opinion, will satisfy their needs. The government is not involved as service arranger or provider but can only set parameters or conditions which will regulate the relationship between the service consumer and the service producer. Market arrangements are normally used to supply goods for household consumption (Savas,1987:79-80).

2.7.9 Voluntary service

There are organisations which, through their own efforts, voluntarily provide certain goods and services free of charge to the community. Under this type of arrangement, a voluntary institution acts as both a service arranger and producer. The organisation involved will supply the service directly to consumers, either using its employees or hiring a private organisation to perform the task on its behalf (Henry,1995:337).

2.7.10 Government service

Public organisations exist to provide goods and services to the community with the aim of promoting the general welfare of the people. In this arrangement, the government acts as both the arranger and the producer of the service. The government is responsible for providing basic services which include, defence, water, education and safety and security. In certain instances members of the community are expected to pay a certain amount of money which does not necessarily cover the cost of supplying the service (Savas,1987:63).

2.7.11 Intergovernmental service agreement

Here the public organisation in one sphere of government appoints another public organisation in the same or another sphere of government to produce a specific service. A government department in one region or sphere can identify another department in another region or sphere to produce a specific service on its behalf, especially when it does not have the capacity to do so (Savas, 1987:65).

2.7.12 Contracting-out

Contracting-out is one of the methods used for supplying services in both the private sector and public sector. In a contracting-out arrangement, the service provider identifies an organisation which will produce a service on its behalf. The service provider remains responsible for the financing of the service and it pays the contractor a certain amount of money for the services rendered depending on the amount agreed upon by the two parties in terms of the contract (Craythorne, 1997: 462).

A tendering process is used as a means of getting potential contractors to bid for a contract. The service provider will compare the profile of each and every potential service producer and compare, amongst other things their quoted prices and identify the most suitable provider (Butler, 1985: 54). Sometimes it happens that the service provider chooses the bidder who offers an affordable price, although an affordable price alone does not necessarily mean that quality services will be rendered (Benaud & Bordeianu, 1988:27).

The service provider should be able to explain or stipulate the expected quantity and quality of the service, including the expected level of performance. It should also be in a position to control or evaluate the quality of the service rendered. Starling

(1998:134), is of the opinion that in cases where the product is not easily measurable in terms of quality and quantity, control measures such as product specification, investigations of complaints and monitoring can be used to evaluate the activities of the contractor.

Contracting-out services, gives the service provider an opportunity to focus on its core functions while auxiliary or support functions are performed by an outside organisation (Sunday Times, 15 October 2000:6).

The service provider can decide to terminate the contract of a service producer if he or she fails to honour responsibilities as stipulated in the contract. So a successful bidder maintains a high level of efficiency with the aim of putting itself in a favourable position when the contract has to be renewed. This also serves as a motivating factor for contractors to deliver a quality service (Savas, 1987:68-69). This form of privatisation is the focus of discussion in the following chapter.

2.7.13 Self-service

Members of the public take initiatives to produce certain goods and services for themselves or for their family members. They produce services which were supposed to be supplied by public organisations. A self-service can be found in rural areas where there is hardly any provision of basic services such as drinking water. For example, members of the public may take initiatives to identify the nearest natural fountain or make arrangements for their own boreholes (Savas, 1987:81).

2.7.14 Co-production

Government contracts are also awarded to non-governmental organisations or voluntary organisations as compared to contracts which are awarded to profit

organisations as indicated above. In certain instances the relationship between the government and voluntary organisations is informal and does not involve transfers of money or payment for a service (Henry, 1995:328).

2.7.15 Partnership or joint undertaking

The government and a private organisation share responsibilities in providing a specific service to the consumers. This kind of arrangement can either be in situations where neither public nor the private organisation has the capacity to provide a specific service on their own. A partnership is also formed for the strategic reasons of reconciling public and private management approaches or principles (McGregor, 1987:11).

Public-private partnerships reflect a set of organisational relations between government, the private sector and in some instances also civil society. They can further be defined as an arrangement where both the public and the private sector share a commitment to pursue common goals that are determined jointly by the two sectors. In a public-private partnership, several parties combine in action to achieve a particular objective - they share an objective although their roles may differ (Fourie & Burger, 2000:695).

According to McGregor (1987:11), the manner in which such a partnership is structured would probably differ from case to case and could include the following:

- ✓ the acquisition of shares by the private organisation in an existing or a new undertaking, but with the public organisation, 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 a private organisation in an existing or a new state enterprise in which the public organisation maintains a permanent involvement. Such a partnership between the private and the public organisation may be appropriate in the case of natural monopolies or when, for special reasons, full private ownership is deemed not to be in the interest of the country; and

- ✓ the phasing out of shareholding by a public organisation in undertakings as and when it has fulfilled its responsibility from a developmental point of view.

2.7.16 Leases

The private organisation leases assets or facilities owned by the state and uses them to conduct business on its own account. The lease sets forth the terms and conditions under which the lessee may operate these assets and facilities, the compensation that must be paid to the state, and the respective responsibilities of both parties. The key feature of a lease agreement is that the lessee assumes the full commercial risk for operating the assets. If the state leases out certain assets or facilities in return for an agreed payment, the lessee has to make the payment regardless of whether he makes profit or not (Shirley, 1988:36).

In addition to the lease payment, the lessee is normally obliged to maintain and repair the assets in use or to share in that cost in accordance with an agreed schedule.

2.7.17 Management contract

The government appoints a private organisation to manage a public organisation. The management group is given full management control and the authority to

manage. The management contractor derives its authority from the contract and must manage the operation in terms of the contract. While the contractor might be given extensive management powers and operational control, it has no financial exposure and receives its fee regardless of the profitability of the enterprise (Shirley, 1988:37).

Several factors influence the design and structuring of a management contract agreement. A clear agreement must exist on the intended objectives of the management role and the design of authority and control are to be vested in the prospective manager.

In some instances, the management company is a joint venture company between the government, state-owned enterprise and a private organisation. A properly structured remuneration package must be devised which will, in many cases, include three features, charges for the provision of the management company's personnel in accordance with agreed formula, including a small profit element, agreed reimbursable costs and incentive payments linked to profits, production or other appropriate formulas.

Where performance or incentive payments are part of the overall compensation package, these are forfeited if the level of performance or other criteria, are not met. The public organisation continues to bear the full commercial risk and is responsible for all working capital and debt-financing (Shirley, 1988:34-35).

To this extent, the state is not relieved of any financial burden and, in fact, takes on a higher short-term burden in the form of the management fee. The advantage of this arrangement is, however, that ownership is retained, a defined degree of control is maintained and a high level of management and other skills are injected into the enterprise, enhancing its overall efficiency and profitability. A state may require a

contractor to take an equity participation to ensure a deeper commitment.

While there is normally no transfer of ownership or divestiture of state assets, these arrangements can be used to privatise management and operations and thereby possibly increase the efficiency and effective use of state assets. Although sometimes regarded as an intermediate step toward full privatisation, leases and management contracts are more often used as a temporary measure, i.e., to return a state-owned enterprise to an acceptable level of operation and profitability (Shirley, 1988: 34-35).

2.8 CONCLUSION

The process of privatisation involves a number of activities. Some of them do not actually refer to privatisation but can only be identified as preparatory activities for privatisation, i.e., commercialisation. According to this chapter, the decision to privatise depends on the nature and characteristics of goods and services under consideration. A choice for an appropriate strategy for privatisation will depend on the factors or objectives which have to be achieved by the privatising organisation. The next chapter focuses on the identification and explanation of a normative model for privatizing technical services within Vista University.

CHAPTER 3

A NORMATIVE MODEL FOR THE PRIVATISATION OF TECHNICAL SERVICES WITHIN VISTA UNIVERSITY WELKOM CAMPUS

3.1 INTRODUCTION

In the previous chapter, the researcher primarily focussed attention on the definition of privatisation, the objectives behind it, the participants involved in the delivery of services, the basic characteristics of goods and services, the types of goods and services, and lastly, the different forms of privatisation.

Such forms of privatisation can either be applied to the whole organisation or to a specific sector within an organisation. An organisation must choose the appropriate method of privatisation which suits the needs of that specific industry or sector. Again, choosing the appropriate method(s) of privatisation, as identified in the previous chapter, depends on the objective to be achieved by the service provider since different methods of privatisation lead to different outcomes.

According to Rondinelli and Iacono (1996:249), an organisation should have clearly conceived goals and objectives in order to choose the appropriate method of privatisation, and to design the organisational changes that will be necessary to make it work effectively.

For example, if the objective is transferring ownership, methods such as a divestiture or employee buy-out can be considered. On the other hand, if the aim is to transfer management control, and leave ownership in the public sector, an organisation might choose a public-private partnership or contracting out (Ghere, 2001:444).

This chapter focuses on the privatisation or restructuring of a specific section within Vista University. It specifically, provides a normative model for privatising the technical services at Vista University's Welkom Campus.

The researcher has considered contracting-out to be the most appropriate form of privatisation considering the reasons for privatisation and in relation to the problems facing the university. The objective or goal behind the privatisation of the services within the University emanates from financial and efficiency objectives as one of the reasons behind the privatisation of services as identified in Chapter 2.

On the other hand, different stakeholders within the university, such as the institutional forum and labour unions, have voiced their concern over the fact that there are no clear guidelines on how the whole procurement process has to be carried out.

Other reasons stem from the fact that technical services at Vista University can be divided into units, which is one of the preconditions for services to be contracted out.

It is for the above-mentioned reasons that the researcher will provide steps which should be followed in contracting out the technical services of Vista University. Such steps should, amongst others, include, a planning phase, contract preparation, invitation to tender, adjudication, and contract implementation and monitoring. Lastly, the chapter will provide a checklist which the tendering committee can utilise to determine the key steps in the process of contracting out.

In the following section, the researcher deals with aspects concerning the privatisation of services within a university, considering also the provision of the University statutes.

3.2 PRIVATISATION OF SERVICES WITHIN A UNIVERSITY

In determining the most appropriate form of privatisation within a university, one must firstly determine whether the legislation providing for the establishment of such an organisation allows or prohibits the use of contracts. The following section will give a description of the status of Vista University as a semi governmental organisation.

3.3 THE STATUS OF THE UNIVERSITY IN TERMS OF THE VISTA UNIVERSITY ACT, 1981, ACT 106 OF 1981

According to the Vista University Act, 1981, Act 106 of 1981 the University is a juristic person capable in law of suing and being sued in its own name, and subject to the provisions of the Act; of purchasing, or otherwise acquiring, holding, hiring, letting, selling, exchanging or otherwise alienating any immovable property; or granting any person any real right in, or servitude on, its property; and of investing, lending and borrowing money.

The University cannot, without the approval of the Minister of Education, let, sell, or exchange, or otherwise alienate, its immovable property, or grant to any person any real right therein, or servitude thereon, or lend or borrow money.

The University may acquire itself such stores and equipment, in such a manner and on such conditions, as the council may determine. Such stores and equipment shall be controlled in a manner to be determined by the Council of the University.

The University may, with the approval of the Minister, enter into an agreement with any other body, or organisation, or department of state, in connection with the continuation of its activities (Vista University Act, 1981:S.515).

From the above-mentioned provisions, one can deduce that the University can consider only certain forms of privatisation taking into consideration the legal implications concerning its institutional nature as provided by the Act. Vista University can only choose options, methods or forms of privatisation wherein it retains ownership of the facilities, property and other assets given the fact that it is a semi-autonomous organisation which has been established in terms of an Act of Parliament. The University can therefore only operate within the stipulated guidelines provided in terms of the Act.

The following section focuses on the steps involved in the contracting out process which amongst others, include, planning phase, contract preparation, invitation to tender, adjudication, and contract implementation and monitoring.

3.4 STEPS INVOLVED IN CONTRACTING OUT SERVICES

In Chapter 2, under the different forms of privatisation, it was explained that contracting-out or outsourcing refers to the process of searching for, and selecting, suppliers of services traditionally produced inside the organisation. The process involves competitive tendering to determine which is the preferred service producer on the basis of price and non-price criteria.

The contract entered into then binds both parties to an exchange of services of a pre-determined quality and quantity, for agreed financial payments. The transaction runs for a specific period of time, and becomes the mechanism through which relations between the parties are managed and regulated (Domberger & Stephen, 1994:1).

Contracting-out involves services which are state-financed but are supplied by private organisations. It can generally be referred to as an aspect of public

procurement policy. It also involves the public sector purchasing goods and services from private organisations. In the private sector, the process involves private organisations purchasing goods or services from one another.

Of the steps involved in contracting out services, the following sections focuses on the aspect of planning or conducting a feasibility study.

3.4.1 The planning phase or conducting a feasibility study

The process of competitive tendering starts with the development of clear policy or objectives on what the service provider wants to achieve through the process of contracting-out of services. To this end, the service provider should undertake a feasibility study on whether there are sufficient knowledge and expertise about the process within the organisation (Hanke, 1987:71).

All activities performed by the service provider should be identified and classified. An analysis of the activities performed by the organisation should make a distinction amongst line or functional, support, and administrative activities. An analysis of functions performed by the University will be the basis of discussion in Chapter 4 (Gooden, 1998:502).

The service provider should look at the basic characteristics of goods and services, such as, exclusion and non-exclusion, individual and joint consumption, and lastly, at the question of whether these goods are divisible or indivisible. This analysis identifies activities which are contractible against those which cannot be (Rehfuss, 1989:63).

The significance of this analysis is that it provides information upon which preliminary decisions about contracting-out are made. The analysis will determine

whether only a portion, all the activities, or perhaps none, should be contracted out. Based on this analysis the service provider will be able to identify those services which are suitable for privatisation (Rehfuss, 1989:64).

After an analysis of services has been done, performance indicators for each activity should be developed. These indicators essentially reflect how activities can be measured and further serve as the basis for the actual contract.

The service provider should then identify the presence of potential service producers and whether efficient and effective suppliers of the intermediate goods and services exist. The economic rationale for conducting a preliminary search is to establish whether contracting is likely to be feasible (Hanke, 1987:71).

Private organisations that produce final goods and services are rarely fully integrated. Many intermediate inputs, the resources that are needed for final production, are supplied by other service producers. The contracting organisation must apply these criteria to determine whether outside contractors are likely to have the necessary experience and expertise to supply its requirements (Domberger & Stephen, 1994:3).

The service provider should ensure that the process of tendering or bidding is competitive and contestable. Organisations have options of choosing between open or selective competition, or direct negotiation with a preferred supplier (Hartley, 1984: 9). Public organisations, in particular, express concern at the prospect of uncompetitive or collusive behaviour by potential contractors if a certain method of such direct negotiation is used.

There is also an assumption that direct negotiation with the potential service producer might defeat transparency and accountability principles. Yet private firms

are often prepared to negotiate contracts directly with suppliers, without necessarily going through the bidding process (Domberger & Stephen, 1994:3).

The bid price outcome depends on the strategies adopted by individual bidders, their valuations of the contract subject to tender, which, in turn, will depend on their expectations of costs and revenues, and finally, on the type of auction mechanism used. In most cases of competitive tendering, the sealed tender bid system is used (Domberger & Stephen, 1994:3).

It is up to the service provider to determine whether a competitive bidding process is essential, and if so, what form it should take. Formal tendering is usually required of public organisations for reasons of probity and accountability as highlighted above. In the private sector, firms do not always go through a formal tendering process, because they expect to get satisfactory results without incurring the costs of setting up and evaluating tenders (Domberger & Stephen, 1994:4).

The other element of the contracting decision involves the actual costs of contracting (the transaction costs), which are largely a comparison of organisational costs with an estimate of the contractors' costs. This includes not only the costs of managing and assessing the bids, but also the costs of contract design and negotiation, as well as the monitoring and enforcement costs. In other situations, the costs of contracting out can offset or even exceed the savings generated from competitive tendering. The monitoring and enforcement of contracts is more intensive than that required of in-house service provision.

Most organisations simply select several contractors offering the service and request estimates of their costs of providing the service. Requests for quotations can be made from potential bidders for the tender. The estimates can be taken as approximations of the bids that will be made if a formal bid is requested. The next

step is to obtain the organisation's costs for the service. The simplest and best approach is to identify all avoidable costs, both indirect and obvious. Obvious costs are those costs directly attributed to the service, such as salary, benefits, and expenses related to the service. Indirect costs are such items as departmental administration and, in a large organisation, divisional and system-wide expenses, such as rent, utilities, and insurance (Domberger & Stephen, 1994:4).

It may be difficult to accurately estimate indirect costs and some other costs, such as employee shares of the pension plan. The basic issue is to include only avoidable costs. Administrative costs, for example, may be avoided and should thus not be counted in. Organisational costs associated with a contracted service such as monitoring, letting bids, and preparing documents should be included if they are net additional costs. The cost estimates of the contractor should be determined to see if they are within the budget requirements of the service provider. The service provider should identify people who will be responsible for the tendering process and those for implementation (Rehfuss, 1989:69).

All the internal stakeholders affected should be educated about the risks and opportunities arising from the contracting-out decision. This is primarily done with the aim of preventing resistance by certain groups which might not feel comfortable with the process. Rationalisation in organisations is mostly accompanied by reduction in staff numbers. Employees would like to know whether their jobs are guaranteed or not.

The service provider should determine the extent to which the process will affect the rights, benefits and employment opportunities of its employees. Organisations which are contracted to provide a specific service often reduce their levels of the labour force with the aim of reducing production costs. It is the duty of the service provider to indicate whether employees will be taken over by the new contractor or not. The

service provider should also determine whether labour relations regulations limit contracting-out, and whether the existing employees have the skills (training and experience) required to monitor and evaluate contracts (Rehfuss,1989:67).

External stakeholders such as consumers should also be educated about the benefits of contracting-out, such as improved service delivery and its positive impact on economic growth as identified in Chapter 2 against the perception that privatisation generally results in increased prices of goods and services (Hanke,1987:71).

The following section of the chapter focuses on the manner in which the contract regulating the relationship between the service provider and service producer is prepared.

3.4.2 Contract preparation

The second stage in the tendering process involves the preparation of the contract documents. Contract preparation involves activities such as specification of the contract, determining the types of contracts, the conditions of a tender and definition of the contract.

3.4.2.1 Specification

Once activities to be contracted out have been identified specifications must also be developed. Specifications serve as a guideline to the service producer on how and where the job will be done. The line manager of the organisational unit the activities of which are being contracted out will play a primary role in developing these specifications. He or she is the only person with the relevant skills and expertise to develop accurate specifications of a workable tender about the activity

under consideration (Fortin & Van Hassel, 2000:172).

Specifications should provide clear instructions to the service producer on what is expected from them. They should be developed in such a way that even a lay person and small contractors should be able to understand what is expected from the contract (Fortin & Van Hassel, 2000:172). The elements of the contract should be identifiable and easily evaluated.

There are generally two types of specifications: technical and performance specifications. Technical specifications indicate the actual work to be done, while performance specifications indicate the level of output required from the service producer. Technical specifications tell exactly how goods or services are expected to be produced (Flynn, 2002:154).

3.4.3 The contract

The contract is a document which provides the conditions of tendering. It also provides the guidelines which will be used during the implementation of the contract when the actual work is done and determines what and how the relationship of the service provider and service producer ought to be, i.e., activities such as collusive behaviour by competitors will be indicated as illegal activities. It will explain the responsibilities they have to each other. The conditions of tendering will also indicate what sort of self-protection the service provider requires regarding the contract.

Three issues should be reflected in the contract, namely, the place where the contractor will operate from, the requirements for change in product cost, and self protection. With regard to the place from which the contractor will operate, the service provider can decide to sell or lease the existing area of operation or choose

to make it available to the contractor for free (Archer, 1987:142).

The second issue to be addressed in a contract is the question of the changes in the production cost which is categorised as either fluctuations or variations.

Fluctuations refer to the changes in production cost due to the influence of economic factors such as a depression. The cost price of the contract has to be adjusted annually to be in line with the rate of inflation. It can also be adjusted in consideration of changes in the price of one or more production factors such as labour.

Variations refer to the amount of money which is paid by the service provider to the service producer in anticipation of changes which might occur on the type of service rendered or changes in terms of its volume or frequency. This normally happens when the service provider no longer requires part of a service rendered by a service producer (Fortin & Van Hassel, 2000:187).

The third issue to be dealt with in the contract is the question of self-protection. These are measures which the service provider puts in place to ensure that there will be continuity in the delivery of a service in case the contractor fails to deliver the required product.

Self-protection can be effected through a penalty, termination and default clauses, insurance and performance bonds.

Penalty and reward clauses ensure that the product delivered by the service producer remain above the expected level of performance. Therefore, performance indicators which have been established during the feasibility study period will be useful in this regard. Services which are below the expected level of performance

can either be identified by the person evaluating the activities of the service producer or by the consumers of the service who can report it to the contract manager. Inefficient performance will consequently result in a reduction of payments made to the contractor.

According to Archer (1987:143), insurance usually takes the form of deeds of guarantee or performance bonds. Deeds of guarantee are often required from subsidiaries of large companies and generally prescribe that the parent company will be responsible for any losses or damages which result from default by the contractor.

3.4.3.1 The performance bond

The performance bond refers to money which is made available by the contractor and held by a third party during the lifetime of the contract. The service provider will use the money to fulfil the terms of the contract in situations where the service producer is unable to fulfil its responsibilities.

3.4.3.2 The default and termination clause

This measure is put in place with the intention of protecting the service provider in case of withdrawal or unsatisfactory performance by the service producer. The utilisation of default clauses, as a way of self-protection, forces the contractor to redo certain parts of its work and can be used by the service provider in cases where the contractor is not able to fulfil its duties. The contractor can also bring another organisation to perform the work on its behalf.

Termination clauses give the service provider the right to end the contractual agreement if the contractor is liquidated or provides inadequate level of service. The

service provider will then charge the contractor for all costs including the cost associated with termination (Flynn, 2002: 143).

The following section looks at the different types of contracts which can be considered by a contracting organisation. A choice of a suitable contract will depend on how a particular contract suits the needs of the organisation.

3.4.4 Types of contracts

The service provider should, in the process of preparing a contract, determine the type of contract to be utilised. According to Henry (1995:326), there are two major types of contracts: the formal model and the joint management model. The difference between them lies in the manner in which the service provider and the service producer relate to each other.

3.4.4.1 The formal model contract

Under the formal model contract, the service provider and the service producer work as independent entities. There are three types of contracts under the formal model, namely, the fixed price, total package procurement and the incentive contracts (Fortin & Van Hassel, 2000:187).

Under the fixed price contract the service producer is paid a specific amount of money for the work performed on behalf of the service provider. This kind of contract allows the service provider to determine its budget allocations accurately. The danger of fixed prices is that the quality may drop if the service producer is not getting a fair compensation (Henry, 1995:326).

Potential contractors are invited to bid on a single package that runs from

development, through production, to eventual operational support of a contract. Total package procurement encourages competition, reduces the length of contract negotiation and enhances the possibility of more frequent fixed-price contracting (Henry, 1995 : 327).

The incentive contract is based on the amount of time which the contractor spends in completing a project. A contractor receives a bonus from the service provider if the work allocated is completed before the stipulated time frame. This is based on the assumption that the service provider saves money if the project is completed before the stipulated time frame.

3.4.4.2 The joint management model contract

The joint management model contract promotes co-operation between the service provider and the service producer. The service provider actively participates in the service producer's operational decisions. It shares responsibilities towards the completion of the task.

A major type of contract under the joint management model is the cost-plus or management-fee contract. Under the cost-plus contract, the service provider covers the service producer's risks by assuring that it will cover all costs accrued by the contractor in developing a project and then pays an additional amount of money as profit (Archer, 1987:138).

The cost-plus contract consists of two types of contracts, which are the cost-plus-fixed-fee contract and the cost-plus-percentage-of-the-cost contract. The cost-plus-fixed fee contract provides for the repayment of the contractor along with the payment of a fee negotiated as a percentage of the estimated cost of performance that has been established prior to undertaking the work. The cost-plus-percentage-

of the-cost contract is based on fees charged by the contractor on actual costs. This form of contract encourages contractors to be as costly as possible, since their profits are based on the costs incurred.

The following section deals with activities involved in publicising the tender to potential service producers by the service provider.

3.5 THE INVITATION TO TENDER

The process of selecting a service producer starts with an invitation to potential tenderers to bid. Such an invitation can be an open invitation through an advertisement in newspapers, magazines, trade journals, and trade shows, including the electronic media such as the Internet. The service provider can alternatively decide to directly contact the relevant trade associations or potential contractors themselves. It is the responsibility of the service provider to ensure that maximum competition is maintained (Flynn, 2002:149).

Advertisements for a tender are normally compiled by people with a legal background together with the line manager of the organisational unit under which the work will be contracted. The advertisement includes aspects such as the place where the bids will be opened, specifications for the proposed service, the place where the formal bid proposal with all bidding details can be obtained, the name of the unit, and the statement that all bids may be rejected (Rehfuss, 1989:7).

The bid proposal form that bidders should complete includes aspects such as the specifications of the work to be done, the type of contract to be implemented, the conditions of the tender, the measures for self protection by the service provider and the statements about bidder qualifications, the provisions for disqualification, and the reporting and payment provisions (Rehfuss, 1989:7).

The service provider can also make use of pre-qualification questionnaires to find out more information about the potential service producer's profile. Pre-qualification data may include site visits to the potential service producer's premises, credit reports from banks and references from previous employers (Archer, 1987:147).

A briefing session or a pre-bid conference can also be held with potential contractors. During the session, representatives of the service provider will introduce people who will be working with the potential service producers. The service provider will use these sessions as an opportunity to clarify instructions, answer questions, interpret the bid specifications and to solve any potential problems which can be identified. The information session can also include visits to the site where the actual work will be done. This will ensure that potential contractors understand the needs of the service provider and will not submit incomplete or inappropriate bids (Rehfuss, 1989 :72-73).

The following section will focus on the criterion to be followed by a service provider in selecting the successful bidder which include activities such as capability assessment, technical assessment, financial appraisal and equity ownership.

3.6 ADJUDICATION

The adjudication process commences after all potential contractors have completed and submitted their tender documents to the service provider. The process involves evaluating submitted tenders against the provisions of the tender documents and, eventually, identifying the successful tenderer.

The evaluation of tenders is done by an adjudication panel which is composed of a line manager of the relevant functional department, the representative of unions, the chief financial officer and the representatives from the management of the service

provider.

The process consists of four distinctive parts, namely, capability and technical assessments, financial appraisals and equity considerations.

3.6.1 Capability assessment

This form of assessment looks at the ability of a potential contractor to undertake the work specified in the contract. According to Refhuss (1989:73) primary considerations should include a contractor's financial stability, relevant experience, management ability and other organisational considerations such as location, history, size and structure.

The service provider should also assess the contractor's management ability, more especially, the ability of the manager who will be responsible for directing the work (Flynn, 2002:145).

3.6.2 Technical assessment

It is the responsibility of the line manager to analyse whether the submitted tenders are in line with the specifications indicated in the tender documents. The line manager should be able to determine whether the contractor will be able to undertake the responsibilities specified at the quoted price, and should further identify those areas where the potential contractor has overlooked certain items.

3.6.3 Financial appraisal

The service provider should ensure that the contractor's quoted prices cover all the specifications in the contract, after which it should draft its own in-house tender in

order to compare it with the tenders submitted by potential contractors.

An in-house tender should include the avoidable cost, which refers to cost which would not be incurred if the contract was awarded. Avoidable cost has to be compared with the net tender cost associated with contracting out. If the net tender cost is less than the avoidable cost, one should, from a financial point of view, contract out.

Avoidable cost consists of direct, indirect and capital costs. Direct costs include variable costs associated with the operation of the service, i.e., the cost of salaries or wages and the telephone. Indirect costs refer to costs of support services to the line functions, such as finance, purchasing, personnel and transport. Capital costs are calculations which take into account the value of assets which would be disposed of as a result of contracting out (Archer, 1985:149).

In instances where the use of contracting-out allows the disposal of certain assets, the value of those assets must be subtracted from the total. The service provider should guard against invalid cost comparisons between an in-house bid and an external bid. Invalid comparisons can be made by service provider personnel who are in favour of an in-house tender because of being afraid of organisational restructuring. Cost comparisons by the service provider should also include the costs of the evaluations of contract implementation (Bailey, 1995:385).

In most cases of competitive tendering, the sealed tender bid system is used. But, as stated above, even in the public sector and where contracts for services are involved, it is no longer necessary to accept the lowest bid. Trade-offs are increasingly made between the perceived or expected quality of service and the tendered price. Some contract managers within public organisations apply value-for-money criteria when awarding contracts (Domberger & Stephen, 1994: 4).

The final step involves drawing up the formal legal contract with the successful service producer. A contract is a legal binding document and should therefore be drafted by a person with a legal background. Preferably, it should be the same person who has drafted the invitation to bid. This ensures uniformity and consistency in the whole process of contracting. The substantive content of the contract should be somewhat similar to the actual bid awards, including reporting requirements, contractor fees and payment schedules, specifications for performing the service, termination dates, and penalties for inadequate performance (or incentives for high performance) (Rehfuss, 1989:78). The following section focuses on the political criterion which must be taken into consideration is selecting the successful bidder.

3.6.4 Equity ownership

As identified above, the service provider should select the successful bidder on the basis of experience and the ability to produce goods or services specified. However, such a criterion does not only take into consideration the capacity or experience of the potential service provider, but can also consider political priorities of the government of the day such as black economic empowerment.

There is a need to explain the motive of this criterion and how it fits within this particular study. The black economic empowerment strategy was one of the core objectives of the Reconstruction and Development Program aimed at uplifting the lives of previously disadvantaged people. The motive behind the black economic empowerment idea is based on the fact that economic activities in the country are dominated by white business and black people and women have been excluded from the mainstream of the economy (African National Congress, 1994:93).

There is further a need to provide a clear definition of black economic empowerment. For the purposes of this study, the principles of black economic empowerment will

be used in awarding tenders during the contracting-out process. This approach is used with the aim of redressing the imbalance of the past by seeking to substantially and equitably transfer and confer the ownership, management and control of South Africa's financial and economic resources to black people (African National Congress, 1994:93).

Therefore there was and there is still a need to develop a mechanism that will facilitate an increase in business ownership, penetration and participation by black people in the economy. Currently there are no formal regulations in place governing black economic empowerment, more especially for private organizations. Private companies developed empowerment initiatives with the aim of gaining preference for government contracts. Within the public service, empowerment initiatives are regulated in terms of the Preferential Procurement Policy Act, 2000 Act 5 of 2000 which provides guidelines on how companies owned by previously disadvantaged people are awarded contracts (Impumelelo, 2001:297).

The South African government is in the process of developing a "Black Economic Empowerment Policy" which will provide detailed guidelines on how empowerment initiatives will be conducted in both the public and private organizations, including parastatals. One of the key aspects in relation to the proposed legislation is the commercial equity clause which will expect companies to comply with a procurement strategy that gives preference to black- and women-owned businesses (Impumelelo, 2001:17).

When potential contractors apply, one criterion to select a successful contractor will be to look at the equity breakdown of the organization. In order to fulfil the black economic empowerment objectives, the equity breakdown of the successful contractor must be at least 51 percent black.

Furthermore, policies should be developed that will make it easier for black people to gain access to capital for business development. Attention should further be placed on small businesses particularly those owned and operated by black entrepreneurs which must form an integral part of the national economy and economic policy. Most people in the informal sector lack productive and managerial skills plus access to business sites, capital and the market.

Small firms, especially if owned by black people, must be empowered to develop productive linkages with the large scale sector. Government organisations, together with other organizations such as the Industrial Development Corporation, must assist in providing capital for the attainment of black economic empowerment objectives (African National Congress, 1994:94).

The new legislation should further set uniform guidelines and indicators against which the private sector and the public sector including parastatals, can measure their performances in achieving the objectives of empowerment, and set procurement targets for the public sector departments in all spheres of government and state-owned enterprises (Sunday Times, 7 July 2002:16). This particular criterion should not be the basis of selection, but should be applied together with the kinds of assessments mentioned above.

3.7 CONTRACT IMPLEMENTATION

During the implementation of a contract, the service provider will stop providing the function which has been contracted out and the appointed contractor will take over. The most important aspect to be considered in the termination of in-house service provision is the employment aspect. Employees who fall under the organisational unit of which the function has been contracted out can be redeployed to other organisational units, be absorbed by the contractor or be retrenched in instances

were the contractor is not in a position to absorb the whole labour force (Haffajee, 2000:2).

The following section deals with aspects or activities which are involved in evaluating the work of the contractor or service producer in order to ensure that the agreed specifications are maintained.

3.8 CONTRACT MONITORING

Activities relating to monitoring a contract are performed by the line manager who was in charge of the service before it was contracted out. This is so since these activities require a person who is familiar with the policies, principles and procedures involved in the rendering of the service. The process of monitoring contracted responsibilities is aimed at ensuring that the contractor completes assigned tasks effectively, responsively and according to the schedule (Lane, 2001:34-35).

Monitoring the work of a contractor involves activities such as inspections, paying attention to the citizen's complaints, and the evaluation of performance reports.

3.8.1 Contractors reports

The service producer's reports will normally be either on a monthly or quarterly basis. Aspects such as the work progress to date, comparison of work to date with the contract expenditure schedule to date, and the forecasts of work and expenses for the entire contractual period, should be part of the report.

Based on the experience to date, the contractor should explain user satisfaction levels with the service provided and give explanations of matters such as the necessary changes to the contract problems encountered in meeting the contract

targets, and variations in performance. The monitoring officer should scrutinize the report and determine whether the information in the report is correct or not (Dilger, et al., 1997:24-25).

3.8.2 Inspections and observations

Inspections and observations provide the best measure of evaluating the work of the contractor since the monitoring officer physically checks the work of a contractor. They are normally carried out on a periodic basis. The nature of the work performed will determine how frequently the inspections and observations are to be done. Certain kinds of work will require inspections to be done once the work has been completed and others will require routine inspections and observations.

3.8.3 Complaints

Complaints which are made by customers to the service producer are used as a means of evaluating activities. They can be directed either to the service provider or to the service producer. If they are received by the service provider first, then the service producer should be informed accordingly. The number of complaints reported determine how well or how bad the service producer is performing the assigned task.

In order to utilise complaints as an effective monitoring measure, the service provider should provide a formal complaint procedure. A formal procedure will also include a toll free number which complainants can phone at any time. The complainant should also be given a number which will be a source of reference for future purposes (Dilger, et al., 1997:24-25).

The following section provides for a checklist which can be used by an organisation

which is involved in the contracting out process. Such a checklist can be of useful nature especially during the planning stage of the contracting out process.

3.9 CHECKLIST ON REQUIREMENTS OF A CONTRACTING OUT PROCESS

This checklist can be used by the University as a guide during the contracting out process. It indicates critical aspects which should be taken into consideration during the process.

- ★ Legislation regulating the operations of the organisation.
- ★ Evaluation of possible forms of privatisation.
- ★ Determination of the availability of contracting out expertise within the organisation.
- ★ An analysis of functions performed by the organisation.
- ★ An analysis of characteristics of activities to be privatised.
- ★ An analysis of availability of service producers in the market.
- ★ Determination of a criterion for identifying successful potential service producer.
- ★ Determination of the cost of an in-house service.
- ★ Education of affected stakeholders.

- ★ Employment considerations.
- ★ Development of contract specifications.
- ★ Mechanism of self-protection.
- ★ Types of contract to be considered.
- ★ Determination of the manner in which the tender will be publicised.
- ★ Criteria to be used in identifying a successful bidder.
- ★ Capacity of the contract manager.
- ★ Comparison of an in-house tender with external tenders.
- ★ Evaluation of activities of the service producer.

3.10 CONCLUSION

Identifying the appropriate form of privatising technical services within Vista University depends on the nature and character of the organisation, nature of the activity to be contracted out and the objectives to be achieved through the privatisation or specifically contracting out. It was identified in this discussion that the success of the process of contracting out depends on the manner in which the whole process is managed. The most critical step in the process being the identification of an appropriate service producer and the question of monitoring the activities of the service producer.

The following chapter will provide a classification of functions performed by a

University, although the primary focus will be placed on the description of activities performed by employees within the technical services department, it will further provide an analysis on the role of different stakeholders in the process of contracting out.

4.1 INTRODUCTION

The previous chapter focused on the model to be followed in contracting technical services within Vista University Welkom Campus. Such a model provided steps on how the process of competitive tendering could be carried out within the University.

This chapter provides a description of activities performed within the technical services department. Firstly, an inventory of functions performed within the University is given, followed by a description of the activities performed by employees categorized in Figure 4.1, as general workers employed in the technical services department.

A brief explanation is provided of the organizational structure of the technical services department. The chapter further gives an outline of activities to be followed in contracting out general services, followed by an analysis of people within the University who will be involved in the process of contracting out services. The activities to be performed within the technical services department. The analysis will include the role of the technical services and the general management committee, manager of the technical services department and of employees assigned to do general work.

The analysis of Vista University's capability in contracting out the general services will be provided from the analysis.

The activities to be performed within the technical services department will be described in detail.

CHAPTER 4

TECHNICAL SERVICE DELIVERY AT VISTA UNIVERSITY WELKOM CAMPUS

4.1 INTRODUCTION

The previous chapter focused on the model to be followed in contracting technical services within Vista University Welkom Campus. Such a model provided steps on how the process of competitive tendering could be carried out within the University.

This chapter provides a description of activities performed within the technical services department. Firstly, an inventory of functions performed within the University is given, followed by a description of the activities performed by employees categorised in Figure 4.1, as general workers employed in the technical services department.

A brief explanation is provided of the organisational structuring of the technical services department. The chapter further gives an outline of activities to be followed in contracting out garden services, followed by an analysis of people within the University, who will in one way or another, be involved or affected by the process of restructuring the gardening services within the technical services department. The analysis will include the role of the tendering committee and the campus management committee, manager of the technical services department, and of employees designated as general workers.

This analysis will give a picture on the feasibility of contracting out the gardening services and the possible form it can take.

The following section provides an explanation of the functions performed by the

University and how the activities of the technical services department influence the achievement of objectives within the University.

4.2 THE DIVISION OF FUNCTIONS WITHIN THE UNIVERSITY

In terms of the theory of public management, an organisation is responsible for the performance of three kinds of functions; namely: administrative, operational, and support functions.

Administrative functions give direction to the activities of an organisation. These functions enable the organisation to achieve its intended objectives. They include activities such as policy making, planning, organising, leadership, and motivation and control (Fox *et al.*, 1991:18). Operational functions are activities which are directly related to the objectives of an organisation. They involve the production of goods and services.

Support functions are those activities which are not directly related to the objectives of an organisation but assist operational employees to achieve the objectives of an organisation. They improve efficiency and effectiveness within organisations (Du Toit & van der Walddt, 1997:18).

According to the Vista University Act, 1981, the university should perform three kinds of functions, which are, teaching, research, and community service as well as administrative, and support activities. Teaching, research and community service form part of the operational functions. Activities of the technical services department form part of the support functions. The technical services department provides support to teaching, research, and community service activities within the University. Lastly, administrative functions provide an enabling environment for the achievement of the teaching, research, and community service functions.

It is assumed that, contracting out technical services will help the University to focus on the core services of teaching, research, and community service while an outside organisation focuses on support services. According to the findings in Chapter 3, the process can be used as a cost saving mechanism, but that depends on how the process is carried out.

The power to appoint any person as a member of the teaching, administrative, clerical or any other staff of the University, or to promote, transfer, second, or discharge any member responsible for the abovementioned functions vests with the Council (S15, Vista University Act, 1981).

In the following section, the researcher gives a description of the activities performed by employees identified as general workers who are responsible for the activities identified as technical services.

4.3 THE ACTIVITIES OF THE STAFF MEMBERS OF THE DEPARTMENT OF TECHNICAL SERVICES

This research focuses on the activities of personnel carrying out responsibilities of the technical services department who, in terms of the organisational structuring as depicted in Figure 4.1, are classified as general workers.

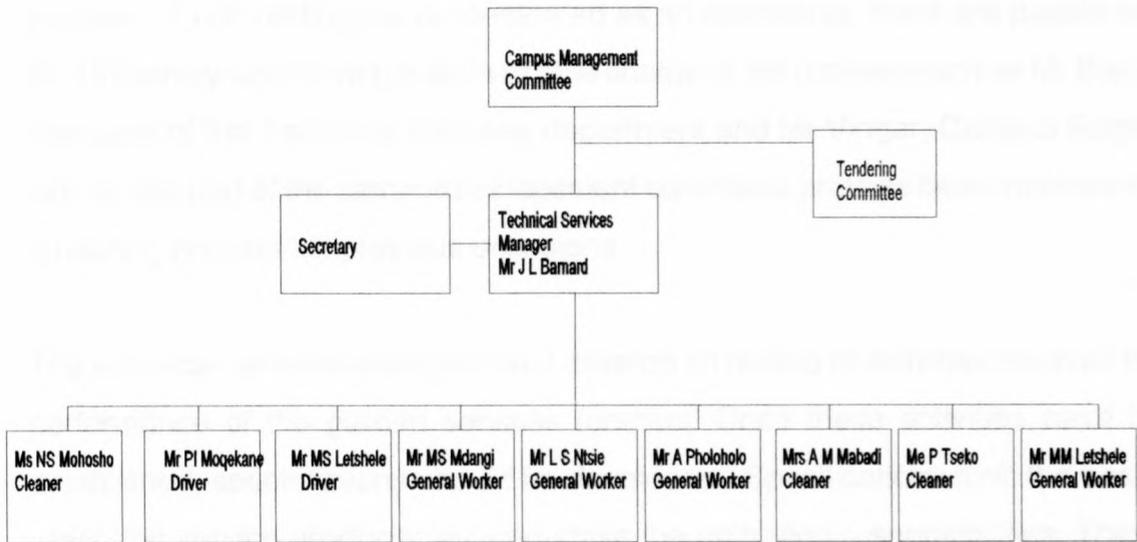
Their responsibilities involve the following aspects:

- ★ the upkeep of gardens, lawns and relevant equipment;
- ★ the cleaning and maintenance of walkways;
- ★ collecting all rubbish on the premises;

- ★ assisting with the maintenance of buildings;
- ★ the moving of assets (furniture, equipment and tools) on the premises, loading or unloading of assets, boxes or any deliveries;
- ★ the cleaning of official vehicles;
- ★ the cleaning and maintenance of equipment and tools used by the technical services department;
- ★ fixing electrical appliances such as heaters, overhead projectors, and fans;
- ★ hanging and removing curtains if necessary;
- ★ arranging and removing furniture for special occasions;
- ★ the packing and keeping of stores (Vista University Staff Manual, 2000:18).

Figure 4.1 shows the organisational structure of the technical services department, as well as the lines of reporting or accountability.

Figure 4.1 :Organisational structure of the technical services department



The following section provides a description of the activities to be followed in contracting out garden services at Vista University, Welkom Campus. It should however be noted that gardening services do not constitute a different organisation unit within the technical services department. Gardening services is given as an example considering the fact that it is the primary activity performed by general workers in terms of the outline of function identified in the previous paragraphs.

4.4 CONTRACTING OUT GARDENING SERVICES AT VISTA UNIVERSITY WELKOM CAMPUS

The contracting out process starts with a planning phase or feasibility study. During this phase the campus management committee should make preliminary decisions about the process before it unfolds. Certain projections have to be made about possible implications of the contracting out decision. This will help the University to determine how feasible or possible will it be to carry out the restructuring process.

The campus management committee should determine whether there are employees on the University payroll who have sufficient knowledge about the contracting out process. If contracting out is considered as an alternative, there are people within the University who have the skills to take charge of the process such as Mr Barnard, Manager of the Technical Services department and Mr Vinger, Campus Registrar who is also part of the campus management committee and has been involved in the tendering process on previous occasions.

The technical services manager must develop an outline of activities involved in the performance of the garden services function. Once these activities have been established, specifications should be developed. Specifications form the basis on which the service producer will undertake the entrusted responsibilities. They will provide the basis of the contract between the University and the service producer.

Contract specifications should include technical and performance specifications. Technical specifications provide an indication of how the gardening function will be carried out, i.e. whether tractors or hands-operated lawnmowers will be utilised. According to Mr Barnard, the Manager of the Technical Services department, performance specifications should include aspects such as, the size of the grounds to be worked, the frequency in which the garden will be worked, the height which must be maintained during grass cutting and the frequency in which the grounds will be watered.

The tendering committee should evaluate the availability of local organisations providing garden services and further determine whether those available have got sufficient experience or not. As already indicated in Chapter 3, the tendering committee is composed of the manager of technical services, representatives of unions and campus management and the chief financial officer.

Employees who are currently providing the gardening services should be informed of the campus management committee's intentions to contract their activities as well as the possible implications of such a decision. As a legal requirement of contracting out, labour unions having membership within the campus should also be consulted. A decision should be made by the campus management committee in consultation with the employees affected whether their services will be retained or not.

The following options can be considered:

- ★ the tendering committee can negotiate with the potential service producer to take over the services of the existing employees and this should be indicated in the contract. The contract should also indicate the number of employees who are going to be taken over by the service producer;
- ★ employees who fall under the affected organisational unit whose activities have been contracted out can be reassigned to other organisational units if they possess the required skills;
- ★ employees can be retrenched in instances where the service producer is not in a position to absorb the whole labour force or they cannot be reassigned to any other organisational unit within the University;
- ★ since all members of the technical services are black, the campus management committee can advise employees within the department to form an empowerment company in the form of a closed corporation which can be given preference during the tendering process;
- ★ where no suitable employment is available inside the organisation, the

campus management committee should be in a position to develop key strategies or attractive incentives that will encourage the affected employees to leave the organisation without necessarily effecting forced retrenchments. A generous severance package or early retirement should be provided for those who decide to leave. The University should develop employee assistance programmes in which the affected employees will be provided with services such as counselling and financial advice.

One strategy to avoid resistance from employees would be to develop a contract in which the new service producer will be bound to take over the services of all the general workers.

The tendering committee should draft the contract which will govern the relationship between the University and the service producer. It should further seek the advice of a legal person in this regard. The contract should, amongst other things, indicate the method of self-protection that will be required from the service producer, the type of contract to be used. As identified in Chapter 3, the method of self protection refers to measures the University should take in cases where the service producer is unable to fulfil his or her responsibilities as stipulated in the contract.

The tendering committee should also indicate the duration of the contract. The tendering committee can decide to offer a short term renewable contract of at least a year. Such a contract will encourage the service producer to provide excellent service with an aim of positioning himself or herself for a possible renewal.

A decision should be taken by the tendering committee on the manner in which the contract will be publicised. As a further cost saving mechanism, the University can take a decision to advertise the tender only in local newspapers such as Express, Vista and Goldnet news since local newspapers offer cheaper rates than national

newspapers such as Sunday Times. The tender advert should amongst other things include the date, time of closure, validity period, and address where the tenders must be deposited or posted. The tendering committee can also take a decision on the amount of a non refundable fee which accompanies all tender bids.

The tendering committee should organise a pre-bid conference before the submission date for tenders. During the pre-bid conference, the manager of the technical services should clarify issues regarding the contents of the contract and what the University expects from the new service producer. He should indicate to the potential bidders that the University expects the new producer to retain the services of the four general workers. The pre-bid conference can include an inspection of the site to be worked. Further the technical services manager has to indicate that the University intends using a non fixed kind of a contract.

After the deadline for the submission of bid proposals has passed, the tendering committee or the adjudication panel should study the bid proposals in order to identify the successful bidder.

As part of the process of selecting the successful bidder, the tendering committee should make a shortlist of successful bidders. The shortlisted organisations should be called in to make representations about their bids before the tendering committee.

In the process of identifying the successful bidder, the tendering committee should compare the costs of in house tender and the bidding prices offered by the potential service producers.

An in-house tender will include the University's cost of providing the garden service. In determining the cost of an in house tender, the tendering committee should

amongst other things calculate the cost of salaries of employees currently providing the garden service including their service benefits. The tendering committee should determine the value of equipments general workers utilise in providing the gardening service. The value of the assets is calculated taking into consideration their purchase price minus the cost of depreciation over the current lifespan of the equipments.

According to information obtained from the personnel office of the University, general workers are all in the same salary scale and are paid an average annual salary of R48 672. The University also pays the following benefits:

- ★ 25% of the total annual salary as housing allowance
- ★ 16% of the total annual salary as pension contribution
- ★ 1% of the total annual salary as Unemployment Insurance Fund
- ★ 2% of the total annual salary as group insurance
- ★ 70% of the total medical aid contribution fees

Given the above scenario, Table 4.1 will provide an illustration of the amount the University pays in terms of salaries and benefits. Table 4.2 provides expenses incurred by the University in acquiring equipments utilised in the rendering of the gardening function. The current value of equipments will give an indication on the amount of money the University can receive if it decides to lease the equipments to the new service producer.

Table 4.1 : Estimated cost on employee's salaries and benefits

	Cost per employee per month (R)	Cost per employee per year (R)
1 Salaries	4 056	48 672
2 Housing allowance	1 014	12 168
3 Pension	648.96	7 787.52
4 Unemployment Insurance Fund	40.56	486.72
5 Group insurance	81.12	973.44
6 Medical Aid	470	5 640
Total expenditure per employee	6 310.64	75 727.68
Total expenditure of four employees	25 242.56	302 910.72

Table 4.2 : Cost of equipments

Name of the equipment	Quantity	Cost per unit (R)	Total expenses (R)
Lawnmowers	6	25 000	150 000
Bushcutters	6	3 500	21 000
Wheelbarrows	8	400	3 200
Spades	12	40	480
Forks	12	40	480
Rakes	12	40	480
Hose pipes	4	1 400	5 600
Sprayers	9	350	3 150
Paper pinchers	5	20	100
Total expenses			184 490

After the tendering committee has determined the University's cost of providing the gardening services, it must compare it with the bid price offered by potential service producers. In addition to the prices offered by bidders, the tendering committee should add, administrative, monitoring and legal expenses towards the contract. If the cost of providing gardening services by the University is higher than prices offered by bidders, therefore the University should from an economic point of view contract out.

One of the criteria used in identifying the successful bidder during the contracting out process is to look at the bidder offering the lowest bidding price. However this should not be used as the only criterion. The tendering committee should further determine whether the organisation offering the lowest bidding price has the capacity to deliver the required level of service. The tendering committee should investigate the tax affairs of the successful bidder before the contract is awarded. This will ensure that they are entering an agreement with a reputable organisation which has a clean credit record.

The next section gives an explanation on the role played by the various participants in the restructuring process. The responsibilities of the affected participants is elucidated taking into consideration, the various steps to be followed in the normative model of contracting out services as outlined in Chapter 3. The explanation involves an analysis of how the technical services manager, tendering committee and the campus management committee and employees who are classified as general workers are affected or are expected to play a role in the process.

The first section explains the role of the tendering committee together with the campus management committee. The campus management committee is expected to give direction to the restructuring process.

4.5 AN ANALYSIS OF THE ROLE OF THE CAMPUS MANAGEMENT COMMITTEE AND THE TENDERING COMMITTEE

The campus management committee must outline the objective needed to be achieved through the restructuring process. The objective to be achieved through the privatisation of the technical services is to improve cost efficiency in the performance of the operational activities of the University.

During the initial stage of the contracting out process, the campus management committee should inform all the internal stakeholders of the prospects of restructuring the activities of the technical services department. The affected employees should be educated about the risks and opportunities arising from the contracting out decision. This is primarily done with the aim of preventing resistance by certain groups which might not feel comfortable with the process. For example, affected employees within the technical services department might like to know whether their jobs will be guaranteed or not. As part of a legal requirement, the management committee should consult with the unions within the campus.

The campus management committee has the responsibility to determine the extent to which the contracting out process will affect the rights, benefits and employment opportunities of its employees. Such a decision should be taken before the commencement of the contracting out process.

The campus management committee should take a decision on what is going to happen to the current work force affected by the contracting out decision. As previously indicated in the preceding paragraphs such a decision should be made in consultation with affected employees.

The tendering committee must take a decision on the form of a contract which will be used to regulate the relationship between the service provider and the service producer. Since the primary objective behind the whole restructuring process is to reduce operational costs, the tendering committee should choose a contract which is likely to lead to cost saving.

The tendering committee should further take a decision on whether to sell or to lease the existing equipment presently utilised by the technical services department.

The campus management committee should determine whether labour relations regulations limit contracting-out, and whether the existing employees have the skills (training and experience) required to monitor and evaluate contracts.

The tendering committee should be in a position to draft its own in-house tender that will be compared with tenders submitted by the potential service producer during the selection of a service producer.

The campus management committee should assess the contractor's management abilities, more especially the manager responsible for directing the work.

The campus management committee should consider strategies that will result in long term budget or cost saving and not quick-fix solutions which may result in long term problems. It is of critical importance that the management of the campus take into consideration all implications of the contracting out decision from the outset.

A bad decision may result in a financial outcome that does not fulfill the intended objectives. To prevent this from happening, the campus management committee should develop a checklist or an outline of all the factors which have to be considered during the contracting out process. Such an outline has been included

in Chapter 3.

The campus management committee should handle the whole process to the extent that there is a balance between the needs of the employees and the needs or the objectives of the organisation.

The tendering committee should also be in a position to develop formal complaints procedure which will be used by staff members within the University if they are not satisfied with the manner in which the new service producer is delivering the service. It should further designate a person who will be responsible for handling such complaints. The most appropriate person will be the manager of the technical service department who will also be responsible for evaluating the work of the contractor.

4.6 AN ANALYSIS OF THE ROLE OF THE MANAGER OF THE TECHNICAL SERVICES DEPARTMENT

The role of the manager of the technical services department is of critical importance since he is the line manager of the affected department. He must be in a position to develop performance indicators for each of the affected activities presently carried out by the employees depicted as general workers in the organisational structure.

According to the procedures to be followed during the contracting out process as outlined in Chapter 3, these indicators essentially reflect how activities can be measured and further serve as the basis for the actual contract. For example, periodic time frames should indicate the frequency in which the service producer will cut and water the gardens..

The manager of technical services plays a role in the compilation of advertisements

for tendering which must be done in conjunction with legal people. He should further be involved in the briefing session of the pre-bid conference since he is the relevant person to answer questions which may be asked by potential service producers.

The manager of technical services will form part of the tendering committee which is composed of the representatives from unions, the chief financial officer and the representatives from the management of the campus. He must be available when the preferred candidates make their presentations before the tendering committee. As the line manager of the department he should help the selection panel to identify the most appropriate service producer.

During the selecting process, the technical services manager should analyse whether the submitted tenders are in line with specifications as indicated in the tender documents. He should determine whether the service producer has the capacity to undertake all responsibilities as stipulated in the contract at the quoted prices and further identify those areas where the potential contractor has overlooked certain items.

The technical services manager is the ideal person to take charge of the monitoring and evaluation of contracts which involve activities such as observations and inspections. Such activities require him to be familiar with the policies, principles and procedures involved in the rendering of these services. For the privatisation process to be successful, the manager of the technical services department is expected to possess some expertise about the whole process of contracting out.

Currently, the manager of the technical services department is given the sole discretion of appointing service producers responsible for, example, maintenance work within the campus. These service producers are responsible for performing activities which are the core business of the employees of the technical services

department. According to the findings in Chapter 3, such decisions should be taken over by a tendering committee which consists of a line manager, finance officer, and the representatives of unions and management.

The next section focuses on the roles and responsibilities of employees within the technical services department within the whole process of the restructuring of their department. These employees should not be allowed to take a back seat position, but should be major participants in decisions affecting their future.

4.7 AN ANALYSIS OF THE ROLE EMPLOYEES DESIGNATED AS GENERAL WORKERS

The most important aspect to be considered during the restructuring of the technical services department is the employment aspect. It is a sensitive aspect which must be clarified before the contracting out process commences. Employees reflected in Figure 4.1, as general workers are primarily the ones to be consulted during the planning phase or the feasibility study phase of the contracting out process. These employees should be consulted to express their views towards the restructuring of the activities of the organisational unit they fall under.

The employees should be educated about the risks and opportunities arising from the contracting out decision. According to the findings in Chapter 3, this is done with the aim of preventing resistance from the employees who might not feel comfortable with the whole process of contracting out.

Therefore the campus management committee should clarify how the contracting out decision will affect the rights and privileges of employees currently employed within the department. These employees should be informed about what is likely to happen, and how the events are going to affect them and what services will be put

in place to help them before, during and after the transition period.

There are a number of options which employees can choose from as identified in the section dealing with contracting out gardening services. These options include voluntary severance packages, reassignment, forced retrenchments, incorporation within the new service provider and the formation of a closed corporation.

These employees must come up with a decision on which option they will prefer. According to the researcher 's analysis, the majority of employees in the technical services department do not possess the skills which they can utilise in other functional areas within the University. Therefore in considering options which might be made available to these employees, alternative reassignment to certain organisational units will not be feasible.

4.8 CONCLUSION

This chapter outlined the primary responsibilities of the staff members within the technical services department. The description indicated how the technical services functions contribute to the achievement of the organisational objectives. The technical service function is regarded as a support function to the fulfilment of the teaching and research function which is regarded as the core business of a University. For the process of contracting out to be successful there are specific aspects which all the role players involved must take into consideration.

The following chapter will provide the findings of the whole research endeavour. Such findings will either agree or disagree with the assumption made in Chapter 1. It will further include recommendations on the manner in which the technical service function is undertaken or contracted out within Vista University Welkom Campus.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter focuses on the findings of the whole research process and recommendations which will be useful to the University should the process of contracting out the technical services function be considered. The findings are derived from the literature study and also from the interviews which were held with members of the management committee at Welkom Campus. The findings and recommendations will help the management committee of the campus to consider a decision on whether the activities of the technical services department should be privatised or not.

5.2 FINDINGS

The results of the literature study show that contracting out activities of the technical services department will lead to better utilisation of resources due to the fact that activities of private organisations are exposed to market forces such as competition which compel them to be efficient.

Contracting enhances managerial control because the service provider specifies the quantity and quality of service to be provided at a given price and both the contract performance and the contract are continuously monitored and periodically reviewed.

Competition between contractors stimulates better contract performance and more information is made available on the cost and delivery of a service.

More than eighty percent of the work performed by the general workers staff involve gardening services which is a seasonal activity as indicated in the outline of their functions in Chapter 4. During winter, general workers within the technical services department basically have nothing to do because the grass is dry.

Most members of the management committee are of the opinion that the size of the grounds to be worked and the nature of gardening services do not warrant the number of staff members employed on a full time basis in the department.

Given the above scenario, the amount of work performed by general workers during the winter period does not warrant the value of money the University spends on gardening services.

The results of the interviews held with the members of the management committee reveal that staff members employed in the technical services department do not possess all the required skills to perform all the functions assigned to that particular organisational unit, i.e. maintenance of equipments. In certain instances outside contractors are appointed to perform functions assigned to the technical services department. The University incurs extra expenditure when outside contractors are appointed to do the work which is supposed to be done by the technical services staff.

More than 50 percent of the interviewees from the campus management committee are of the opinion that the amount of money spent on salaries and other benefits such as medical aid, housing allowance, pension fund, group insurance as indicated in Table 4.1 will be less than the amount of money which will have to be paid to a service producer if the service is contracted out given the fact that during winter period the activities of the service producer will be scaled down.

5.3 RECOMMENDATIONS

Given the above findings, the researcher recommends that from a financial point of view the University should contract out the activities of the four employees who are currently responsible for gardening services. With regard to the employment aspect, the University should negotiate with the new service producer to retain their services or negotiate a severance package which will motivate them to leave the employ of the University.

The process of contracting out should involve all the stakeholders within the University. The management committee should inform all stakeholders about the risks and opportunities involved in contracting out, more especially employees who will be affected by the process.

The University should retain the services of the manager of the technical services department as the person in charge of monitoring and evaluating of the activities of the new service producer. This results from the fact that he is currently responsible for the monitoring and evaluation of the work done by two external service producers responsible for cleaning and security services.

The tendering committee should ensure that detailed specifications are outlined on the activities to be performed by contractors. Specifications of the contract should cover changed circumstances and unexpected needs.

Considering that a gardening service is a seasonal activity, with the prime working period being in summer, the University should offer a seasonally priced contract for both the winter and summer periods. Such a contract should provide for the concentration of activities of the service producer in summer and reduce the frequency of the activities of the service producer in winter. This will ensure that the

University pays less money for the work performed in winter. The contract should include penalty clauses for late delivery or non delivery of the service and incentives for prompt delivery.

The tendering committee should take a decision to lease the equipments which are currently used in the gardening services to the new service producer. This should be done with an aim of reducing the price of the contract.

The tendering committee should seek the services of a legal person who will assist it in the compilation of the contract documents.

The tendering committee should ensure that the transaction costs, i.e., cost involved in drawing up a contract, advertising of the tender, monitoring and evaluation, and possible settlement of disputes does not offset the cost saving generated from external service provision.

The campus management committee should only contract out the gardening services function if the price of the selected tender is lower than the cost of an in-house tender since the motive behind the restructuring process is to look at contracts which will result in cost savings for the University.

The campus management committee should seek the approval of the University Council if there are intentions to contract out the activities of the technical services department.

5.4 CONCLUSION

The findings of this research support the assumption that privatisation of services leads to better utilisation of resources. However it is clear that for an organisation

to achieve cost effectiveness, there are certain aspects which must be taken into consideration such as minimizing the transaction costs and developing proper specification and monitoring standards. The results of the study indicate that the manner in which the activities of the technical services department are carried out result in unnecessary expenditure on the side of the University and should therefore be contracted out.

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ANNEXURE A**Student Enrolments: 1982 - 2000**

Year	Contact	Distance	Total	%Growth
1982		300	300	
1983	610	2400	3010	903.33
1984	1485	4767	6252	107.71
1985	3055	7082	10137	62.14
1986	2573	11718	14291	40.98
1987	3752	14 909	18661	30.58
1988	4573	17 164	21737	16.48
1989	5577	18 148	23725	9.15
1990	5789	19 034	24 823	4 .63
1991	6954	19 946	26 900	8. 37
1992	9731	18 716	28 447	5.75
1993	12869	10 120	32 989	15.97
1994	15440	18 373	33 813	2.5
1995	20025	15 586	35 611	5.32
1996	19341	12 841	32 172	-9.63
1997	18449	10 153	28 652	-10.97
1998	18092	10 129	28 221	-1.5
1999	15091	10 434	25 525	-9.55
2000	12704	9751	22455	-12.03