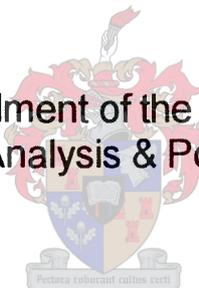


# **REVIEW OF POSTAL REFORM IN SOUTH AFRICA**

**SITHEMBELE SYDWELL TISO**

Thesis presented in partial fulfilment of the requirements for the degree  
of M Phil in Value Analysis & Policy Formulation



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**UNIVERSITY OF STELLENBOSCH**

**DECEMBER 2000**

# **DECLARATION**

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I, Sithembele Sydwell Tiso declare that: this thesis entitled "Review of Postal Reform in South Africa", is my own work, that all the sources used or quoted have been indicated and acknowledged by means of complete references, and that this thesis has not previously been submitted by me for a degree at another university.

**S.S. TISO**

**DATE**

# ACKNOWLEDGEMENTS

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I would like to make use of this opportunity to thank my colleagues, friends and especially my family who assisted me and offered invaluable moral support. I would not have been able to do a masters degree had it not been for the financial assistance, work experience and the exposure I received from the employer, the Department of Communications. A special thanks to Rina Moffis who edited this document. Your contributions meant a lot to me. Without you all I could never have accomplished this task.

I am especially grateful to Prof Willie Breytenbach of the Department of Political Science, for his support, creative, constructive advice and guidance through out my studies. Many thanks for creating the opportunity for me to complete this study in a limited time frame.

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Without the above-mentioned people's support my studies will have been in vain. Lastly, to my Saviour, who gave me the opportunity and ability to do this study. To Him be all the glory!

# ABSTRACT

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The political transition that has occurred in South Africa can be viewed as the country's first liberalisation process. In order to ensure sustainable political democracy, it must be accompanied by a second liberalisation, socio-economic development. The new government recognised that the second liberalisation entails an economic transformation process that will re-gear the economy towards attaining the objectives of economic growth and human development. The restructuring of state owned enterprises (SOEs) has emerged as one of the major trends in new economic thinking of the present government. A list was drawn of all the state owned enterprises that were to be restructured. The Post Office as a state owned entity was also in the list.

The purpose of this study is to assess the South African Post Office Limited (SAPOL) as a typical state-owned enterprise in the context of the restructuring debate. It analyses and reviews the achievements and developments that took place in the Post Office since commercialisation in 1991 up to the stage where government decided to restructure the postal industry. It first starts with the issues that led to government's decision for restructuring, the options for the restructuring of the Post Office and the selection of acquiring a Strategic Management Partner as the most favourable option. More important, the study explains the approaches that postal services have taken to improve performance even when they have been faced with widely differing legal, institutional, and regulatory environments and bottlenecks.

This study looks at the international trends and compare SAPOL with other postal administrations in particular those that have gone through a similar process of postal reform. This restructuring process of the Post Office is discussed in detail. The case studies of the two postal administrations namely, New Zealand and the UK, and the steps taken and lessons learnt by these countries in reforming their enterprises are explored. The purpose of this is to outline several different approaches available to the postal service to meet these and related challenges.

Lastly, the study looks at the implications of the Strategic Management Partner (SMP) within the enterprise and whether to employ them was a strategic initiative for the government. It also attempts to solicit important information where aspects of postal reform seem to succeed and also identify the problem areas.

# OPSOMMING

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Die politieke oorgang in Suid-Afrika was die land se eerste liberalisering. Ten einde die politieke demokrasie standhoudend te maak, moes 'n tweede liberalisering – vir sosio-ekonomiese herstrukturering, geloods word. Die nuwe regering bedoel dat die tweede liberalisering die ekonomie moes transformeer sodat herkonstruksie en ontwikkeling kon plaasvind. Die herstrukturering van staatsbates het 'n vername deel van die nuwe denke geword. 'n Lys van sulke staatsbates is opgestel. Die Poskantoor is so 'n staatsbate.

Die doel van die studie is om die SA Poskantoor (SAPOS) se herstrukturering te beskryf en ontleed. Dit ontleed mikpunte en ontwikkelings wat in SAPOS sedert kommersialisering in 1991 plaasgevind het. Dit ontleed die besluit om verder te herstruktureer, verdere opsies wat oorweeg is en die aanwysing van 'n Strategiese Bestuurs-vennoot (SBV). Dit kyk ook na die benaderings om posdienste te verbeter en wel teen die agtergrond van regsraamwerke, institusionele omgewings en regulatoriese vereistes.

Die studie ontleed ook internasionale tendense en vergelyk dit met SAPOS se omgewing, veral in lande wat vergelykbaar is. Die gekose gevallestudies wat ook SBV-vennote geword het, is Brittanje en New Zealand. Hulle het ook posdienste hervorm. Lesse kan geleer word. Laastens, word die implikasies van die SBV bekyk en word beoordeel tot watter mate dit aan die doelstellings van herstrukturering voldoen. Daar word na hervormingsprestasies sowel as knelpunte gekyk.

# TABLE OF CONTENTS

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DECLARATION.....	i
ACKNOWLEDGEMENTS.....	ii
ABSTRACT .....	iii
OPSOMMING.....	v
Table of Contents .....	vi
LIST OF TABLES .....	x
LIST OF FIGURES.....	x
GLOSSARY .....	xi
<b>CHAPTER 1 - INTRODUCTION .....</b>	<b>1</b>
1.1 BACKGROUND TO THE RESEARCH PROBLEM.....	2
1.2 HISTORY OF RESTRUCTURING OF SOE's IN SOUTH AFRICA.....	4
(i) PRE 1994.....	4
(ii) POST 1994 .....	5
(III) POSTAL REFORM-INTERNATIONALLY .....	8
(IV) POSTAL REFORM IN SOUTH AFRICA .....	11
a) Declining mail volumes .....	12
b) Productivity .....	14
c) Under serviced markets .....	14
d) Post Bank .....	14
e) Infrastructure investment.....	15
1.3 RESEARCH PROBLEM .....	16
1.4 PURPOSE AND SIGNIFICANCE.....	16
1.5 METHODOLOGY .....	18
1.6 DELIMITATIONS .....	19
<b>CHAPTER 2: CONCEPTS AND FORMS OF RESTRUCTURING.....</b>	<b>20</b>

2.1	INTRODUCTION .....	21
2.2	DEREGULATION .....	21
2.3	ENTERPRISE REFORM .....	24
2.4	MANAGEMENT CONTRACTING .....	25
2.5	COMMERCIALISATION .....	26
2.6	CORPORATISATION .....	30
2.7	PUBLIC PRIVATE PARTNERSHIP (PPP) .....	32
2.8	PRIVATISATION .....	36
(a)	PROBLEMS OF MANAGEMENT AND CONTROL OF STATE ENTERPRISES .....	40
(b)	EFFICIENCY AND COST-EFFECTIVE PERFORMANCE .....	40
2.9	Conclusion.....	42
<b>CHAPTER 3: POSTAL REFORM ACHIEVEMENTS IN SOUTH AFRICA.....</b>		<b>44</b>
3.1	INTRODUCTION .....	45
3.2	LEGAL REFORM.....	46
3.3	REGULATORY FRAMEWORK .....	48
3.3.1	PROCESS FOR THE DEVELOPMENT OF A REGULATORY FRAMEWORK .....	49
3.4	THE POSTAL REGULATOR.....	51
3.5	QUALITY OF SERVICE.....	52
3.6	RETAIL NETWORKS .....	55
3.7	ADDRESS EXPANSION .....	57
3.8	TECHNOLOGIES AND NEW SERVICE DEVELOPMENT .....	58
3.8.1	MULTI PURPOSE COMMUNITY CENTRES (MPCC) .....	60
3.8.2	ELECTRONIC COMMERCE.....	60
3.9	HUMAN RESOURCE DEVELOPMENT .....	61
3.10	HUB for southern africa .....	62
3.11	GLOBAL ALLIANCES.....	63
3.12	CHALLENGES FACING THE POST OFFICE.....	64
<b>CHAPTER 4: OVERVIEW OF INTERNATIONAL POSTAL REFORM: CASE STUDIES.....</b>		<b>67</b>
4.1	INTRODUCTION .....	68
4.1.1	BACKGROUND TO NEW ZEALAND POST .....	69
4.1.2	DEREGULATION .....	71
4.1.3	LARGE MAILERS OVER PUBLIC.....	71
4.1.4	LEGAL TRANSFORMATION .....	72
4.1.5	COST CONTROL.....	74

4.1.6	PRODUCTIVITY IMPROVEMENT .....	75
4.1.7	STAFFING AND HUMAN RESOURCES .....	78
4.1.8	FUTURE STRATEGIES.....	78
4.2	CASE STUDY-2: BRITISH POST OFFICE .....	79
4.2.1	BACKGROUND.....	79
4.2.2	SUPPORTING PROCESSES .....	81
4.2.3	REGULATORY BACKGROUND .....	81
4.2.4	TRENDS IN MAIL VOLUMES .....	81
4.2.5	INSTITUTIONAL ARRANGEMENT .....	82
4.2.6	POST OFFICE COUNTERS .....	82
4.2.7	MAIL DELIVERY TEAMS .....	83
4.2.8	CUSTOMER CARE.....	84
4.2.9	CONSULTATION .....	84
4.2.10	REORGANISATION.....	85
4.2.11	HUMAN RESOURCES .....	85
4.2.12	POLITICAL CLIMATE .....	86
4.3	COMPARATIVE SUMMARY .....	86
4.4	CONCLUSION .....	89
<b>CHAPTER 5: THE STRATEGIC MANAGEMENT CONTRACTS OF SAPOL.....</b>		<b>91</b>
5.1	INTRODUCTION .....	92
5.2	ROLE OF PRICE WATERHOUSE .....	92
5.3	GOVERNMENT'S OBJECTIVES .....	94
5.4	OBJECTIVES OF THE SMP PROCESS.....	94
5.5	RESULTS OF THE MARKET TESTING .....	96
	Notes: 97	
5.5	OPTIONS FOR THE SMP .....	97
5.5.1	OPTION 1 .....	98
5.5.2	OPTION 2 .....	98
5.5.3	DECISION ON A VIABLE STRUCTURE.....	98
5.6	STRATEGY FOR THE TENDER PROCESS .....	98
5.6.1	KEY STEPS OF THE TENDERING PROCESS.....	99
5.6.2	IMPLEMENTATION - STAGE1 .....	100
5.6.3	IMPLEMENTATION - STAGE 2 .....	100
5.7	THE TENDER PROCESS .....	100
5.8	THE FINAL PROPOSALS .....	101

5.9	FINANCIAL IMPLICATIONS AND ANALYSIS .....	102
5.10	APPOINTMENT OF THE STRATEGIC MANAGEMENT PARTNER.....	103
5.11	PARTICIPATION IN MANAGEMENT.....	103
5.12	BENEFITS OF INTRODUCING THE SMP.....	103
5.13	ANALYSIS OF THE SMP .....	104
<b>CHAPTER 6:</b>	<b>CONCLUSION.....</b>	<b>106</b>
6.1	INTRODUCTION .....	107
6.2	HIGHLIGHTS OF THE STUDY .....	108
6.3.1	COMPLIANCE WITH THE RESEARCH QUESTIONS .....	108
6.4	ASSESSMENT OF THE APPROACHES.....	108
6.5	CHALLENGES AND CONSTRAINTS .....	109
6.6	SYNTHESIS.....	110
6.8	LIMITATIONS .....	110
6.9	LESSONS OF EXPERIENCE: GENERAL CONCLUSION.....	111
<b>BIBLIOGRAPHY</b> .....		<b>114</b>

## **LIST OF TABLES**

---

<u>TABLE 1.1: COMPANIES PRIVATISED BEFORE 1994</u> .....	5
<u>TABLE 3.1: NUMBER OF SERVICE POINTS</u> .....	56
<u>TABLE 5.1: RESULTS OF THE MARKET TEST</u> .....	97
<u>TABLE 5.2: FINANCIAL IMPLICATIONS</u> .....	102
<u>TABLE 5.3: SUBSIDY PROFILE</u> .....	104

## **LIST OF FIGURES**

---

<u>FIGURE 3.1: PROCESS FOR DEVELOPMENT OF REGULATORY FRAMEWORK</u> .....	50
<u>FIGURE 3.2: SERVICE PERFORMANCE PROJECTION BEING A PERCENTAGE OF DELIVERY MEETING DELIVERY TARGETS</u> .....	54
<u>FIGURE 3.4: ADDRESS EXPANSION PER REGION</u> .....	58
<u>FIGURE 3.5: FORECAST MAIL VOLUME 1998-2002 BASED ON EXISTING AND SMP INITIATIVES</u> .....	65

# GLOSSARY

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CWU	Communication Workers Union
DoC	Department of Communications
GDP	Gross Domestic Product
MPPCs	Multi-Purpose Community Centres
MTEF	Medium Term Expenditure Framework
NZ Post	New Zealand Post
NFA	National Framework Agreement
PiT	Public Information Terminal
PPO	Public Postal Operator
PPP	Public Private Partnership
SA	South Africa
SAPOL	South African Post Office Ltd.
SOEs	State Owned Enterprises
UK	United Kingdom

# **CHAPTER 1 - INTRODUCTION**

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## **1.1 BACKGROUND TO THE RESEARCH PROBLEM**

The provision of a high quality, value-for-money service should be the objective of every public sector organisation. Dedication to this ideal is borne out of the quest for greater efficiency and effectiveness. The embodiment of this quest is the process of restructuring of state assets using the commercialisation and privatisation approaches. A commercialised organisation holds the potential for improved value and efficiency of services, increased job satisfaction amongst employees, and greater innovation, leading to heightened innovation. The main objective of restructuring of state assets is to improve the efficiency and effectiveness of the organisations and to reduce the role of state in the economy (Chalmers: 1999a).

Many qualitative changes in the postal environment, both external and internal, have triggered the transformation. Over the last few years, the globalisation of exchange in goods and services has shown dramatic acceleration (Crew 1991:346). The rapid evolution of the transportation market, also part of the trend toward globalisation, certainly represents a challenge for postal services. In addition, a market liberalisation process is underway which, as it pulls down trade barriers, will leave postal services more vulnerable to competition. But at the same time it will open up opportunities to exploit new markets by taking advantage of the development of international trade. A number of international agreements and rule making processes regulate the market for postal services. These include the Universal Postal Union (UPU), the General Agreement on Tariffs and Trade, and the Conference of European Postal and Telecommunications Administrations (EC Green Paper 1992: 51).

In many developing countries including South Africa, the postal service is one of the worst performers in comparison to other enterprises-in quality of service; productivity and efficiency levels are extremely low (Ranganathan 1998:1). The huge operating subsidies required by post office year after year forced government to redirect scarce funds from meaningful public sector programs. Significant investments were needed to increase efficiency and quality of service,

since most resources and facilities are in a poor or unusable condition. There has been an increased demand for improved levels of service at lower real costs. The introduction of new communications technologies, at worst, postal services had been battered by substitute technologies. These had direct impacts on their social mandates. Hence, an urgent need to undertake comprehensive reform to improve quality of service and facilitate the financial self-sufficiency of the postal service.

As state-owned enterprises, they had no fear of going bankrupt. The telephone service, which was the main "competitor", was also run by the Post Office. All these factors, which protected the postal service, provided no incentives to improve performance. However, this situation is changing rapidly. Governments are no longer prepared to continue covering the losses of the postal sector as public revenues are becoming scarcer. Even with continued monopoly protection in some area of business, postal volumes face a significant threat of erosion if the postal service remains intransigent regarding change. There is growing competition from the private courier industry and the electronic communications industry. These pressures force the postal services to move beyond the core, physical mail business. They are forced to diversify in order to broaden the range of choices they offer their customers (Ranganathan 1998:1).

While only a few countries to date have implemented full-scale postal reforms, some of these reforms show quite workable and interesting results, which have relevance for South Africa that is attempting to modernise its postal service. This study analyses some of the reforms and highlight their successes as well as the difficulties encountered. As we begin this reform journey, it should be borne in mind that the reform program is a process not an event. Despite the success of some of the reform programs, undertaken by other countries, there is no country that has implemented it fully. In this study, the SAPOL is being analysed and assessed as to how far they have progressed and what their successes and difficulties are, and what lessons can be learnt from its experience.

The first section of this study deals with the background; identification of the research problem, and the second section explains the purpose and justification

of the study, whilst the last section deals with the method used in gathering the data.

## **1.2 HISTORY OF RESTRUCTURING OF SOES IN SOUTH AFRICA**

### **(i) PRE 1994**

During the late 1970s and 1980s there was increasing concern in business and government circles about the public sector's increasing demands on the country's resources. The necessity for reducing the public sector's share in the economy through privatisation was stated as part of the long-term economic strategy formulated by the then Economic Advisory Council in 1985 (Thomas 1989:43) and adopted by government in 1987. This led to the subsequent publication of the 1987 White Paper on Privatisation. Restructuring was aimed at achieved macro-economic stability (Mohr: 1993).

The prime motivator behind restructuring of state assets in South Africa was not politics, however, but a deteriorating economic performance of the country and massive distortions in the economy (Dold 1989:4). Bethlehem (1988:17) is of the opinion that restructuring would review the economic role of the state and make South Africa a freer and faster growing country. The history of privatisation in South Africa before 1994 can be described from a number of economic developments. During the 1980's the Government under the guidance of the commission for administration, which had a Directorate for Privatisation, produced the White Paper on Privatisation and Deregulation in 1986/87. After realising the benefits of Privatisation from British experiences, the Government formed the Office for Public Enterprises (currently known as the Ministry of Public Enterprises). The Government's first priority was the commercialisation of the so called "Big Five" state owned enterprises like the South African Transport Services (known as Transnet), the Department for Posts and Telecommunications (now SA Post Office and Telkom). ESKOM; (ISCOR and FASKOR had since been privatised). The second phase for privatisation resulted in a number of transactions. These

are listed below with the estimated proceeds, the type of sale and the year of sale.

**TABLE 1.1: COMPANIES PRIVATISED BEFORE 1994**

NAME OF COMPANY	PROCEEDS	TYPE OF SALE	YEAR OF SALE
Iscor Limited	R 3 Billion	Public Offer	1989
National Sorghum Breweries	R44 Million	Public Offer	1991
SASOL 1 (One) Limited	R400 Million	IDC/Konoi Agreement	1979/80
SASOL 2 (Two) Limited	R2.62 Billion	IDC/Konoi Agreement	1983/84
SASOL 3 (Three) Limited	R2.9 Billion	IDC/Konoi Agreement	1990/91
<b>Total</b>	<b>R8, 964, 000</b>		

\* Source: Department of Public Enterprises - (Developing country privatisation survey 1996-97 Pxxx)

Total proceeds from privatisation concluded prior 1994 amounted to R8.964 billion rands of which the majority was sold through the Industrial Development Corporation agreements.

## **(ii) POST 1994**

The establishment of SOEs in apartheid South Africa created the conditions for skewed development aims, irregular infrastructure and service delivery, and a host of structural problems. Since 1994, these have limited the ability of SOEs to adjust to the new requirements and to new policies. Some corporations are struggling to overcome their legacy of unsustainable debt burdens, under investment in key infrastructure and technology, and unmanageable corporate structures (Ministry of Public Enterprises 2000:15).

In order to address some of the imbalances in the economy, the Government has developed policy and objectives for a restructuring and privatisation programme. These are encapsulated in the Reconstruction and Development Programme ("RDP") and Growth, Employment and Redistribution Strategy ("GEAR"). The RDP was designed as the broad

framework for the fundamental transformation of South African society, while GEAR is the macro-economic strategy central to achieving the main objectives of the RDP- to meet basic needs, to increase economic growth and employment, to develop the infrastructure by mobilising private sector capital, to enhance the competitiveness and efficiency of state enterprises, and to reduce state debt (PriceWaterhouseCoopers 1998:11). The RDP and GEAR therefore commit South Africa to a programme of commercialisation and, where appropriate, privatisation, whether it is through a Strategic Management Partnership, an outright sale or partial divesture through the introduction of a Strategic Equity Partner.

In early 1995, the government established a task group and a committee of Ministers to oversee the work of this task group. The mandate of the task group dealing with the restructuring of state-owned enterprises entails the re-organisation of state assets and enterprises in order to achieve the objectives of the Reconstruction and Development Programme (RDP). The Reconstruction and Development Programme sets out an approach to the restructuring of state enterprises, arguing that Government should decide, on the “balance of evidence”, whether the public sector should be expanded in strategic areas through “nationalisation, purchasing a shareholding companies, establishing new public corporations or joint ventures with the private sector”, or whether it should be reduced in a manner that will enhance efficiency, advance affirmative action and empower the historically disadvantaged, while ensuring the protection of both consumers and the rights and employment of workers” (Ministry of Public Enterprises 1995).

The challenges facing the new government in its implementation of the RDP entails the effective utilisation of budgetary resources, mobilisation of new resources, provision of efficient financing mechanisms for a range of activities, the redeployment of available resources and the development of human resources (Ministry of Public Enterprise 2000:13).

One of the unique fixtures of the governments restructuring programme is the involvement of the Organised Unions in determining the options for

restructuring state owned enterprises. The mechanisms for Union involvement in the restructuring process are contained in the National Framework Agreement signed by Government and major Union Federations in February 1996. The main purpose of this agreement is to establish an agreed process, based on stated objectives and principles, with regard to the restructuring of certain state assets. The agreement also sets out certain guiding principles including the full participation in the restructuring process of organised labour in general and employees of the relevant public enterprise in particular. It also specifies that the process must re-distribute wealth, boost the small and medium enterprise sectors and facilitate genuine black economic empowerment (PriceWaterhouseCoopers 1998:12).

To date, very few companies were privatised post 1994. Below is a list of companies privatised since 1994, the proceeds thereof, and type of sale and year of sale. Recent privatisations of state assets in South Africa include the sale of six SABC radio stations (100 per cent for R520 million in 1996), Telkom (30 per cent for R5.6billion in 1997), Sun Air (100 per cent for R97 million in 1997), The Airports Company (24.2 per cent for R991 million in 1998), of which 4.2 per cent was sold to a black empowerment group for R172 million) and Aventura holiday resorts (100 per cent for R93 million in 1998). These privatisations amounted to approximately R7.3 billion (PriceWaterhouse 1998:11).

Another major fixture of these transactions is that most of them except Aventura Ltd were not co-ordinated or concluded by the Office for Public Enterprises but the line Ministers. For instance, the Minister for Post, Telecommunications and Broadcasting concluded the Telkom transaction. Although the privatisation process post 1994 is one of the government's high profile economic programmes, success and co-operation has been slow. Critical stakeholder resisting privatisation has been largely labour and management, and the ability of the Ministry of Public Enterprises to handle the inter-government political dynamics.

President Thabo Mbeki stated government's commitment to privatisation in his opening speech to Parliament in 1999. In this speech, the State President expressed government's intention to accelerate the implementation of privatisation. Subsequently, the Minister of Public Enterprises announced that the following companies would be privatised (Stuart: 2000). These include the defence portfolio of Ariel Technology and Denel Aviation, Denel Information Technology, Forestry company SAFCOL, diamond mining company Alexkor, Abattoir company ABAKOR, transport sector portfolio which includes non-core businesses such as Transwerk, Connex, Transmed Blue Train, Protekon, Housing and Apron services, South African Airways, Autonet, Petronet the liquid gas and pipeline network, Portnet, the authority which controls and manages the seven ports and the parcel distributor PX and the South African Post Office Limited (SAPOL). The proceeds from these companies will amount to billions of rands to the state treasury coffers.

According to Chalmers 1999b the new privatisation framework in South Africa will have to address the financial performance of enterprises and corporate governance issues for it to be successful. When the New Zealand government introduced the State-Owned Enterprises Act in 1986, it said state owned enterprises would be restructured into corporate bodies. Often called 'corporatisation' in SA, this meant parastatals would have to fund themselves, repay government loans, pay taxes and dividends.

### **(III) POSTAL REFORM-INTERNATIONALLY**

Postal administrations throughout the world are facing similar issues with regard to competition, new services, changing technologies etc. Ranganathan (1998:28), made the following observations with respect to postal reform internationally:

- a) Most of the successful postal enterprise reform experiences are found among high-income countries such as New Zealand, Canada, United Kingdom and Singapore. This is primarily because of the threat of substitution by other communication media, which is greater and is overtly transparent in high-income countries. Additionally, in many

such countries there has been an over-all emphasis on the self-sufficiency of state-owned enterprises, imposed by the government.

- b) There are only a few cases of successful enterprise reform in developed countries. Two primary drivers exist for developing countries to initiate enterprise reform. First, serious postal reform has taken place in countries in which the government has initiated an overall public sector reform to improve the efficiency of government agencies. Agencies that were considered significant 'cash drains' on the treasury, or those that consistently offered poor value to the public, were prioritised for reform under the overall public sector reform program.
- c) The postal service usually meets the criteria for prioritisation as one of the government agencies in need of urgent reform. The other primary driver of serious reform in developing countries is the emergence and steady growth of a private postal sector. Although the provision of the most of the services offered by the competing companies may be illegal, enforcement of the exclusive privileges of the incumbent is more or less impractical and is too costly. The threat of competition has forced the postal organisation themselves to recognise the need to improve efficiency and to introduce quality service.
- d) A significant number of postal organisations, which have undergone corporatisation, have unfortunately considered the corporate transformation as the only required reform. As a result, their post-corporatisation operational and financial performances have not improved because reform did not include commercialisation.
- e) These postal organisations that have successfully implemented enterprise reform have brought about significant benefits for the public (in terms of better service, new products, and value for money), for the government (in terms of tax revenue), and for the enterprise or its parent (in terms of retained earnings, higher salaries etc). However,

even these postal organisations consider enterprise reform to be intermediaries step in the entire reform.

- f) Successful postal enterprise reforms have been led by a common postal policy and strategy adopted by the government (the owner), the postal organisation (the operator), and the regulator. This approach has maintained explicit and corresponding objectives, and the government, the postal organisation and the regulator have worked together toward the development of the sector as a whole.
- g) Even in cases of successful enterprise reform in which dramatic improvements in efficiency, product offerings, and quality of service have been achieved, government ownership and control has restricted the competitiveness of the postal service.
- h) During the past two decades, three trends have emerged in respect of the scope of the exclusive privilege granted to Postal Administrations. Firstly, there has been a trend to narrow the scope of protected postal activity. Secondly, the boundaries between protected and competitive services have been defined with increasing precision. Finally, the growth of international 're-mail' business has been fostered by the elimination of the exclusive privilege over out-bound international letters in some countries.

The review of the postal sector and the experiences of postal reform in countries across the world have led to the conclusion that there is a need for reform (Ranganathan 1998:3-5). The service offered by the post offices throughout has not changed in decades and is not in line with market needs and industry dynamics.

Owing to the poor quality of service, the public often resort to alternative modes of communication, which are always more expensive than the postal service. One of the immediate and profound casualties of poor financial performance and asset utilisation is the level of investment. Since most of the network resources and facilities are in a poor or unusable state,

significant investments are needed if a quality of service is to be offered at low cost. The Post Office requires investment in the following areas: network rebalance, network rehabilitation, service expansion, systematisation and in development of new products

In most countries, universal service at uniform price was achieved via the protection of a monopoly over the delivery of mail. All that is changing today. Combined with economic globalisation, the revolution in information technology-which provides new alternatives to mail-is forcing governments around the world to re-examine both the business of mail and the institutional structure of their post offices.

International organisations like the World Bank, having realised the importance of the postal sector, has taken an interest in postal reform. Although it has traditionally supported privatisation in other industries, the World Bank stopped short of calling for full-privatisation of postal services. Rather, it supports market liberalisation (i.e. more competition to post offices) and 'private participation' in the postal sector through joint ventures and management contracts as is the case in South Africa (Dowson 1997:239).

#### **(IV) POSTAL REFORM IN SOUTH AFRICA**

Over the past decade, the competitive and regulatory environment faced by the Post Office has shifted dramatically; creating numerous factors that motivates it. In an environment of increased competition and demands on government funds, the South African Post Office was targeted for restructuring as a means of reducing the organisation's financial dependence. The management of the Post Office operated with little accountability for financial and operational results. The apparent negative returns on the Post Office's capital expenditure program are indicative of the management's inability to take appropriate investment decisions, based on expected financial returns. The total amount of capital expenditure in the Post Office since its commercialisation in 1991 is over R2,6 billion. At this level of capital expenditure, the Post Office should have established an extensive network with good coverage in rural areas, urban areas, and

townships. It should have attained a high level of productivity, and increased quality of service through automation. Its failure to realise benefits from this high amount of capital expenditure is a clear indication that either the administration is unable to manage its investments in a suitable manner or inappropriate investments have been made. These are some of the reasons why the government opted for the Strategic Management Partner for the South African Post Office (Price Waterhouse 1997:4).

The dual pressures of growing competition and the requirement to maintain reliable, affordable and universal service, underscored the need for reform. Geographic/ Demographic, socio-political and socio-economic conditions specific to South Africa motivated the Post Office reform efforts. With a population of about 45 million and a network of 2440 postal outlets, there are 16000 inhabitants per postal outlet in South Africa. This compares to a European Union average of 3400 citizens per outlet. Also the post office faced the national challenge of overcoming the apartheid's' legacy; for example, the governments' Diversity Policy requires that the Post Office must ensure that there is full representation of all racial groups in their workforce and management levels. Various Post Office objectives required change, including addressing basic customer needs and future competitive challenges, decreasing financial dependence on government funding, transformation of the Post Office in terms of diversity, commercialisation, declining productivity, and declining mail volumes (Green Paper 1997:32).

**a) Declining mail volumes**

The continuing decline in mail volumes provided one major reason for reform. Due to the recent growth in electronic communication services, which compete with traditional postal services, the volumes in letter mail have been declining and the SAPOL had lost significant market share in the highly competitive express and parcel markets. The decline of volumes had also been caused by the increase of tariffs year after year (Price Waterhouse 1997:53).

New postal products and services are making their appearance. Hybrid electronic mail has enormous potential to replace anticipated losses of traditional mail volumes in future years. The postal service has seen an influx of competition on all fronts, from overnight delivery firms such as DHL and parcel providers to new alternate forms of communication such as e-mail and facsimile technologies. Most recently, the postal service has seen the arrival of various forms of electronic commerce (such as electronic bill payment), which may erode the postal service's competitive position.

The current statistics concerning the threat of electronic diversion are staggering. Almost 100 per cent of all business with over 100 employees and over 80 per cent of businesses with between 5 and 100 employees use facsimile machines (Report on "Market Based Assessment of the Demand for Correspondence and Transactions", Postal Services Market Research, April 1999). Approximately, 43 per cent of the 11-billion fax messages in 1998 represented diversion from mail. Eighty per cent of home computers have software, with on-line access capabilities ("State of Industry Report", Electronic Access, January 1999). Banks are aggressively promoting electronic banking, even going as far as offering a free service and/or incentivise customers to switch to the service ("Current Developments in Electronic Diversion", Gemini McKenna, April 1999). Approximately 40 per cent of households say that they pay one or more of their bills each month through some electronic service rather than the mail ("Impact of Communication Technology on Consumer Behaviour", Market Facts, Inc, February 1999) (Analysis Publications. 1999. "Provisions of Quantitative Data as Background Material for the Bangemann Group. Analysis Final Report." (May 18, 1999).

Declining postal volumes have numerous and severe implications on a SAPOL. In the long run, the viability of a national postal network to fulfil the universal service obligation is seriously jeopardised (PriceWaterhouse 1997:72).

**b) Productivity**

Productivity, as measured by the volume of mail handled per employee, has been declining since 1995. In 1996/97 financial year, the SAPOL processed 78,495 mail items per employee, South Africa's labour productivity is significantly lower than that of countries with comparable levels of income and technology. While total volumes have decreased on average by 9.5% over the past few years, employment levels have increased by 15% (Ranganathan 1997:3). Declining productivity captured several factors that required reform. Given that there has been a drive towards agency postal outlets and that employment levels in the postal service are closely related to mail volumes, together with the Post Office's investments in mechanising the sorting function, this trend reflects the failure of the management of the Post Office to balance its resources, network structure and investments.

**c) Under serviced markets**

There is wide disparity in postal network coverage, resulting in poor, and in some cases unacceptable, level of access to network among historically disadvantaged segment of the population and geographical areas. Moreover, partly, due to poor outlet coverage in these areas (resulting in poor service, and thus poor demand), there is no address delivery. The presence of several under serviced markets presented a reason to reform SAPOL, while the governments' Universal Service Obligations required provision of postal services to all citizens.

**d) Post Bank**

The Post bank has been unable to play a significant role as a vehicle for financial services-its market share is stagnant and many accounts are dormant. Post bank's dormant deposits have been used as a source of inexpensive, long-term capital. Customers are reluctant to use a bank associated with the Post Office that offers poor quality of service, which is also riddled with fraud and theft problems.

**e) Infrastructure investment**

Initiatives like Post Bank could not compete realistically without greater infrastructure investment, which presented another element for reform. The South African Post Office faced the significant future challenges of maintaining existing operation levels or enhancing them.

In summary: The performance of the South African Post Office has been very poor, and is continuing to deteriorate-coverage is uneven, service quality is mediocre, theft and losses are high, and consumer confidence is very low. As a result, volumes have decreased significantly, as customers have turned to competitors or substitute products. Moreover, due to historical reasons, and in accordance with the Government's urgent goal to build equitable infrastructure across all geographical areas and communities, a plan was necessary to be devised to extend the postal network to a large segment of the population.

Recognising the urgent need for change, the Ministry for Post, Telecommunications, and Broadcasting has embarked on a restructuring program of the Post Office. The Ministry for Post, Telecommunications, and Broadcasting invited the World Bank's Postal Reform Practice Group which was led by Kumar Ranganathan to review the situation, future developmental drives, and to develop, together with the working group on postal reform of the Department of Communications, a broad policy and institutional framework for the sector. The World Bank's Postal Reform Practice Group then produced a report entitled "Reforming South African Postal Service" which provided recommendations on the most effective and appropriate ways to undertake the restructuring of the SAPOL, and suggested an approach for the implementation of the recommended institutional framework. Those recommendations were then used in deciding the way forward in restructuring the SAPOL.

## **13 RESEARCH PROBLEM**

The problem statement addressed in this study is:

*“Why did the South African government restructure the South African Post Office Limited, and what lessons are learnt in the process?”*

At the time of the Postal Services Act of 1958, the postal services faced a very different environment than it does today. The legal, regulatory, and operational mechanisms set in place, at that time envisioned a market that exhibited only limited amounts of competition. Some of the challenges are difficult to overcome given the constraints of the current operational, regulatory and legislative environment.

Reform entails political costs as it is integral to reform, a study of reform in public ownership can therefore not exclude political analysis. Research and experience in other countries show that political obstacles are the main reason that state enterprise reform has made so little headway in the last decade. This study makes an innovative attempt to objectively disentangle and measure the elements that constitute political constraints on reform.

Firstly, it is an overview of the threats and opportunities the Postal Service is facing - the political movement to reform the SAPOL and commercialisation of the postal market place. Secondly, the study examines how postal management is facing the future. Thirdly, it reviews the lessons learnt from the experiences of foreign postal operations, already subjected to commercialisation or privatisation campaigns. Finally, it attempts to solicit important information where aspects of postal reform seem to succeed and also identify the problem areas.

## **14 PURPOSE AND SIGNIFICANCE**

The purpose of this study is to assess the South African Post Office Limited (SAPOL) as a typical state-owned enterprise in the context of the restructuring debate. This study looks at the international trends and compare SAPOL with other postal administrations in particular those that have gone through a similar

process of postal reform. Lastly, the study looks at the implications of the Strategic Management Partner (SMP) within the enterprise and whether to employ them was a strategic initiative for the government.

The justification for this study is that the Strategic Management Partner (SMP) contract is unique in that the ownership of SAPOL remains South African and that the foreign partners will withdraw after their three (3) year contract, which started on the 1<sup>st</sup> of October 1999. This is not a case of privatisation, but it is a case of self-sufficiency.

Two other considerations, which are relevant in terms of the obligations placed by government, is that the SMP is expected to transfer management skills during this three-year tenure and on the other hand, SAPOL is expected to implement an affirmative action strategy; as well as exploring the opportunities of expanding its services into other markets in Africa and the possibility of South Africa becoming a hub. These rather ambitious plans are analysed, the objective is to verify their implementation as envisaged.

In summary, this study aims to look back at SAPOL, the progress made since commercialisation in 1991, and further developments which were made, taking into account the experience of other postal administrations. It is interesting to know how government introduced the reform in the postal sector and what the problems and challenges were in the process and how were they overcome. Some other postal administrations that introduced reform in their enterprises like the Sweden, Netherlands, Singapore, Finland, Canada and United Kingdom, have improved their quality of service. SAPOL, after the introduction of the reform process: is there any improvement in terms of quality of service, has the universal service obligation been addressed, how? In other countries, mail volumes have been increasing despite the evolution of technological communication substitutes. Even in countries that are technologically most advanced, the growth of mail volumes seem to indicate an overall increase in the potential for communication.

## 1.5 METHODOLOGY

This study can be described as being an exploratory study and a descriptive study: exploratory because it traces back the restructuring and postal reform initiatives undertaken by looking at the developments and progress made thus far with respect to postal reform in South Africa. This study is also descriptive because it describes all the developments in the postal sector particularly the SAPOL since commercialisation in 1991. As the term exploratory indicates, the goal, which is pursued in exploratory studies is the exploration of a relatively unknown research area (Mouton & Marais 1988:43).

Descriptive studies include a large variety of types of research. On the other hand, it is possible to emphasise the in-depth description of a specific individual, situation, group, organisation, tribe, sub-culture, inter-action, or social object. One may also emphasise the frequency with which a specific variable occurs in a sample. This distinction is closely related to the distinction, which may be drawn between qualitative and quantitative research (Mouton & Marais 1988:43,44). For this study an in-depth description of an organisation, is used.

Firstly, this study deviated from a normal practice in that it is the first of its kind here in South Africa, particularly in the postal sector. Secondly, there are not too many authors who wrote about the postal sector in South Africa, there are no official publications about the postal sector other than the government documents, which are then used in this study. As a result, the writer used mostly the books and research material publications of PriceWaterhouseCoopers and other material of Kumar Ranganathan, the World Bank executive who had led an in-depth study of postal reform in Australia, Canada, Chile, Singapore, Sweden, the United Kingdom and 29 other countries. Thirdly, the writer used the daily news information, which is available in the media about the postal sector. Lastly, most of the material used has been produced in-house, which is regarded as classified. However, all the sources that are used in the research process are quoted and acknowledged.

## **1.6 DELIMITATIONS**

The main objective of this study is to review the postal sector reform in South Africa within the restructuring of state owned assets framework. This study does not intend to look at the payment systems and financial services typically undertaken by postal services. The postal sector in South Africa is composed of both the public operator, which is the South African Post Office Limited (SAPOL) and the courier companies. The study only focuses on the changes made specifically on the SAPOL.

Owing to time constraints, the study examined only two countries: UK and New Zealand. This does not in any way imply that the selected two countries represent only the best cases of reform. The selection of these countries is based on the number of factors including: serious need for reform, lessons to be learnt (positive and negative), access to information, availability of data, geographical spread and the current Strategic Management Partners in the SAPOL within the country.

# **CHAPTER 2: CONCEPTS AND FORMS OF RESTRUCTURING**

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## 2.1 INTRODUCTION

Chapter 1 dealt with the background that led to the identification of the research problem. The importance of the research was also emphasised. This chapter seeks to clarify certain concepts, which are often used and rather confusing. The terms deregulation, commercialisation, corporatisation and privatisation are often used interchangeably. This chapter seeks to explain these terms in context and the chronology of these events in practice. It is also important to look at some international trends and literature as the researcher begins to review the processes that have been followed in restructuring the SAPOL.

Restructuring should be used to apply to public corporations and relates to substantial changes that affect ownership, accountability, function and location in the public sector i.e. joint ventures, strategic alliances, commercialisation, operating rules, re-engineering financing and privatisation. (Guideline for the restructuring of state-owned assets 1995:14)

According to Shirley (1989:6b), a state-owned enterprise can be defined as a publicly owned entity with a separate legal personality and separate accounts but carries the bulk of its revenue from the sale of its goods and services, while Deloitte, Haskins and Sells (1985:5) described it as a government entity that is financed partly or wholly for the sale or output as opposed to draw on the general tax revenues of the government. This is indeed a phase of commercialisation where commercial or private sector principles are being utilised.

## 2.2 DEREGULATION

Deregulation is synonymous with opening up the market to create a competitive environment for an industry, a service or a sub-sector of the economy, which has been operating in a protective manner. In other words, it does away with monopolies and cartels without risking the advantage of economy of scale being destroyed.

With the implementation of deregulation, it is important to institute regulatory means thereby ensuring healthy and fair competition between the public and private sectors. Institutions like the Competition Board and other regulatory agencies are important for price regulations and competition matters.

Private sector involvement in the economy should be optimised, and if public sector organisations have to compete against the private sector, it should be fair. This delegate process is emphasised by Wassenaar (1988) and De Waal (1990:2). Wassenaar (1988) observed that control by regulation became an ideology and, while agreeing that deregulation was the easiest way to greatly improve the economy since all it required literally was a stroke of the pen and cautioned that in practice it would not be so easy. De Waal (1990:2) points out that deregulation is seldom a voluntary step and has to be done by way of acts of parliament or in terms of regulations in respect of certain ordinances or through rulings of the Competition Board. A Competition Board formulates and monitors competition policies.

Deregulation means merely removing the regulations that prevent the private sector from competing with a state-owned monopoly. If it is to work, however, it is often a matter not only of removing restrictive legislation, but of also introducing new regulations to change the competitive environment. This has become a widely established practice and has been used in Japan, Canada, Holland, Britain, Spain and elsewhere with a great degree of success. According to Lomberg (1989:1,2), work carried out by Bishop and Kay at the London School of Business shows that the productivity improvements recorded by privatised British Telecom and the British Airport Authority between 1983 and 1988 were no greater than those of British Rail, the Post Office, Central Electricity Generating Board and British Coal and substantially less than those shown by British Steel – none of which had been privatised at that stage. Both British Telecom and the British Airports Authority had enjoyed effective monopoly positions, and there had been either no deregulation or insufficient deregulation in the industries affected. This emphasises the importance of deregulation before privatisation.

Successful privatisation, it seems, must be preceded by a period of deregulation that is sufficiently long enough to allow competitive forces to build up. It is clearly the competitive forces, which lead to the productivity gains allowing for the newly privatised entity to prosper – and to bring to the country concerned the benefits that are its due. This is best summarised by McGregor (1987:112,113), the White Paper on Privatisation and Deregulation (1987) determines that the following approach to deregulation should apply:

- a) Regulating institutions must continuously ensure that regulations, which are contemplated, will restrict the healthy development of the economy as little as possible. Factors such as the necessity of regulation; the cost of convenience of complying with the regulations; the appropriateness of the standards; and the flexibility with which the measures can be applied in a differentiated economy, must be considered in respect of all new regulatory measures. The approach to regulation must therefore emphasise the promotion of economic activities, and be less directed towards their control.
- b) Existing measures must be investigated fundamentally to determine whether they meet these requirements. If they do not, amendments must be made as soon as is feasible. It follows that the objective of encouraging entrepreneurship and restricting the regulation of economic activities to the most essential should also be pursued when applying such measures.
- c) Deregulation must also be applied wherever possible to bring about the freer functioning of market forces in areas where the public sector had a monopoly or quasi-monopoly and where the entry of private sector enterprises had been hampered by government regulations. It is important that, in the absence of defective competition resulting from such regulations, any privatisation measure be accompanied by or preceded by appropriate deregulation to obviate, inter alia, the mere replacement of public monopoly by a private monopoly.

- d) In the regulation of activities, which affect entrepreneurship in particular, cognisance must be taken of the different requirements of the various geographic parts of the country and of the phase of development, which the communities are undergoing.
- e) Deregulation must in particular also promote the expansion of the small business sector.
- f) The deregulation should, where possible, be effected on a permanent basis by the regulating institution itself, with due regard to the guidelines stated above.
- g) In instances where a state monopoly exists, such as telecommunications and energy generation, deregulation would allow for entry by competitors.

The fear that a public monopoly would be replaced by a private monopoly is generally justified. Nonetheless, there are regulatory protection while a private one has to compete for financial resources and is always exposed to, if not protected by, competition (Syncom 1986:23). Where they do not yet exist, mechanisms should be established by all regulating authorities through which consultation on existing and proposed new regulating measures regarding public sector enterprises can take place with the private sector and other interested groups in an efficient manner. Deregulation and privatisation go hand in hand.

## **2.3 ENTERPRISE REFORM**

Ranganathan (1998:10) argues that enterprise reform refers to programs implemented primarily by the enterprise itself to provide it with a more commercial orientation. The steps taken to commercialise the post is termed enterprise reform.

According to Sharkey (1996:24), the word enterprise reform has many meanings in the postal context. Some have equated it with privatisation. Privatisation is a political and professional 'hot button'. To venture capitalists, it might mean a good investment. To current competitors, a privatised postal service might mean

more competition. To commercial customers, privatisation might mean higher rates, less access to retail network, and confusion over rates and service options. To postal employees, privatisation might mean loss of jobs and retirement benefits.

The World Bank's broader approach to the reform of public sector enterprises is based on the following reasoning (The Reform of Public Sector Management 1991: 23-30). Firstly, any of the assets presently being under utilised or wasted in public sector enterprises-particularly in public industrial and commercial firms producing tradable goods could be more productively placed in the hands of private owners. Private investors and managers possess the incentive to use the assets more efficiently.

The World Bank recommends privatisation of public sector enterprises for which a change in ownership would produce efficiency gains. Where a divested public sector enterprise would operate in a competitive market, the efficiency gains are thought to be obvious, and the analysis need not be extensive. Unless it can be shown that there is a market failure or that the market is not contestable, the option of private ownership should be preferred. Still, even massive divestiture programmes will leave sizeable public sectors, including the natural monopoly social-service providers, or certain public sector enterprises that governments insists have strategic significance to the state, or those firms undergoing the sometimes lengthy process of being prepared for sale or closure. These public sector enterprises need attention, often urgently, because of their inadequate production and high costs, the intolerable burden they place on public budgets and the obstacles their subsidies and distortions pose for the development of the private sector.

## **2.4 MANAGEMENT CONTRACTING**

According to Ranganathan (1998:17), management contracting is a public authority contracts with a private company to provide specific services for the operation and maintenance of the postal service. These services could include the provision of key staff for technical assistance, operations, maintenance,

marketing, new product development, finance, and project management. The responsibility of the private company would be limited to that part of the system operates on behalf of the public authority. Where the complete operation is contracted out, customers legally remain clients of the public authority and the private company is compensated in accordance with the terms of the contract.

## **2.5 COMMERCIALISATION**

Commercialisation is the adoption of commercial standards and style of operation, particularly in the areas of financial management and administrative structures as a way to improve performance (Deloitte Ross Thomas).

According to Jones and Abbas (1992: 3), commercialisation is the adoption of certain commercial practices and can be a phase in privatisation. In the case of commercialisation government still solely owns the state-owned enterprise. Commercialisation is in fact the establishment of business (commercial) principles in the public sector. It is essential for public sector enterprises to be commercialised before they are privatised. In this context, privatisation has sometimes taken the credit for the dramatically better returns that have been achieved whereas credit should usually be given to commercialisation in greater measures than to privatisation. As Lomborg (1989:1,2) points out, the main benefit of privatisation are derived not from privatisation per se, but instead from commercialisation and deregulation, the natural fellow travellers of privatisation.

The performance of public sector enterprises is generally inadequate. According to the experience of the World Bank (The Reform of Public Sector Management 1991:22), it is possible to make improvements without changing ownership. This is exactly the objective of commercialisation. Public sector enterprises are government owned production units designed to function in a manner similar to a commercial corporation. They dominate the social-service-providing sectors and are also important in industrial and commercial operations. Although there is great variation in their role, public sector enterprises accounts, on average, for 10 to 20 percent of gross domestic product, 15 to 20 percent of modern sector

employment, and one quarter to one-third of gross fixed capital formation in developing countries.

According to Ranganathan (1998:10), Commercialisation is the process of introducing market principles into postal administrations and Sidak Gregory (1996:3); suggests that a plan for the commercialisation of the Postal Service should include three main elements:

- a) To commercialise the Postal Service properly and effectively, government should repeal the private express statutes and other statutory privileges. If the Postal Service wishes to compete on merit with private firms, it should not be allowed to do so behind the protection of a statutory monopoly.
- b) Government should also repeal the statute that creates the Postal Service's monopoly over access to the customer's mailbox. The repeal of legal restrictions on access to mailboxes by competitors of the Postal Service would properly treat the customer's mailbox as the private property that it is. The deregulation of mailbox access would increase competition across various existing and future classes of mail by lowering costs for competitors of the Postal Service and lowering the consumer's cost of switching from the Postal Service to a private express firm. Eliminating that small but widespread entry barrier would facilitate competitive services and increase customer convenience.
- c) More generally, government should specify by statute that, as long as the Postal Service remains publicly owned, it shall be subject to all laws generally applicable to private firms and shall have no special privileges or immunities arising from its public ownership. The Postal Service should be subject to all the antitrust, employment, environmental; securities, tax, and other laws with which any private company must comply. The Postal Service should not be allowed to borrow from the Treasury, nor should its debt be backed by the full faith and credit of the government.

Government should relieve the Postal Service of its unique statutory burdens, particularly its obligation to provide universal service throughout the country at a

uniform price. To relieve the Postal Service of its universal service obligation, government should remove the embedded subsidies from the postal markets and implement instead an explicit subsidy system in one of two ways. First, government could send postal subsidies directly to consumers in rural areas. Those subsidies could even be means-tested, if one's low income were considered to be more important than one's rural address. Those customers would then be billed directly by the carrier of last resort for the high cost of what might be called "terminating access," to borrow a telecommunications concept. The lower basic stamp price that would result would not include the surcharge for delivery to costly, remote areas. A second means would be for the government to solicit bids from private firms to deliver mail to remote areas for a specified contract term. The winning bid would be that which proposed to provide service at the lowest subsidy from the government. If government were to adopt either approach, it could end the false rhetoric that consumers must tolerate a monopoly to have universal service.

Government should explicitly subject the Postal Service to the antitrust laws. Those agencies have expertise in competitive analysis. Furthermore, because they enforce statutes that apply to all industries, they have the independence that the Postal Regulator lacks. Finally, the Antitrust Division in particular has special experience in dealing with antitrust problems concerning regulated network industries bearing some similarity to the postal industry, such as telecommunications.

If commercialisation of the Postal Service is not politically feasible along the lines that are just described, then government must select the remaining option of substantially increasing public oversight of the Postal Service. This option contains four necessary elements. One is to enlarge the powers of the Postal Regulator and make it truly an independent body. The second is to disabuse the Postal Service of any notion that its mission is to earn "profit" for the government. The third is strictly to limit the lines of business in which the Postal Service may operate. The fourth is to subject the Postal Service to explicit antitrust oversight to ensure that it does not abuse its continuing privileges under the Private Express Statutes and other laws.

The lifting of limits known as commercialisation in the global discussion of the postal future offers distinct possibilities. The question, which is normally asked internationally, is, where can a public postal service turn as technology begins to siphon the mail stream into cyberspace and aggressive private competitors to try to skim-off the most lucrative postal business? How can diverted mail be replaced, or the market share defended? Some say the simplest answer is for it to seek new commercial freedom- the legal leeway to do business in new ways- and to offer new services that add value to traditional postal services. But such commercial freedom carries risks. Private companies do not like competition from government agencies and organise politically against it, advocating deregulation. Their argument: If the post office wants to compete, it should not be shielded from reciprocal competition by having a monopoly on certain types of mail. They portray the issue, as one of fairness-removing the monopoly would 'level the playing field'. This argument ignores the key point that the government grants a monopoly in return for providing service to areas that private companies would ignore and for pursuing consumer-friendly pricing policies. The monopoly serves the public interest by generating large volumes of mail that keep postage rates low and affordable to all. Still, private firms have been successful in pushing commercial post offices onto the slippery slope to deregulation. The Australian government for example, is now studying the possible repeal of Australian Postal Corporation's mail monopoly, and four countries have taken steps to repeal their monopolies-Argentina, Finland, Sweden and New Zealand.

Ranganathan (1998:94) is of the view that commercialisation need not necessarily follow or precede corporatisation. Postal administrations can do much to improve the quality of services and to develop financial self-sufficiency and a market-oriented outlook even without the legislative changes that accompany corporatisation. In a few postal administrations such as those of Chile, Singapore, and Sweden, these changes have been introduced sequentially and corporatisation is regarded as the next major step in the process of postal reform. However, complete commercialisation cannot be achieved without the appropriate autonomy, accountability, and incentives that corporatisation grants the postal service, nor can corporatisation by itself lead to

successful reform. Therefore, it is vital that both processes be implemented for reform to achieve its goals.

## **2.6 CORPORATISATION**

Corporatisation is closely associated with commercialisation. Commercialisation is the whole-complicated process of implementing commercial principles in a public sector enterprise, whereas corporation is the legal establishment of a state corporation. This view is supported by the following definitions:

Corporatisation is the process where a state corporation becomes a public company in accordance with the Companies Act No 61 of 1973. The state remains the sole shareholder (Transnet 1990-1991:2). Corporatisation should happen after commercialisation and before privatisation, if privatisation is appropriate. Corporation is naturally a phase of commercialisation.

According to Buchanan and Bowman (1990:78), corporatisation is the process whereby functions, which were undertaken by government departments responsible to a minister, are transferred to state-owned corporations. This change, coupled with an emphasis on competition, is intended to encourage management to make market performance the prime objective and to discourage covert political influence. Corporatisation is seen to be an essential early step in postal reform.

Ranganathan (1998:63-64), pointed out that corporatisation is the process of giving postal administrations an independent legal status and subjecting them to the same legal requirements as private firms.

- a) Thus, the entity is subject to standard commercial and tax laws, accounting criteria, labour laws, etc
- b) It explicitly separates the ownership and management responsibilities; the postal service renders itself less susceptible to government influence
- c) This process enhances managerial autonomy by to some degree insulating the postal service from non-commercial pressures and constraints

It clearly demarcates the role of government as owner of the enterprise, which is distinct from the operation of the enterprise.

Managerial and organisational autonomy does not imply complete freedom, however. The government as the owner of the corporation, continues to set sectoral policies and goals while leaving detailed planning and implementation of the service to the administration. In addition, the enterprise is subject to regulatory oversight. Most postal administrations, which have reformed for the sake of operational efficiency and market alignment, have placed great importance on corporation. Corporation converts the problem of official governance to the still difficult task of accountability and incentives within the postal administration. Therefore, it is necessary to introduce explicit contracts between governments and postal enterprise managements in order to run the postal service according to market principles. Without these disciplines, management and resource allocation decisions will not reflect commercial realities. Corporatisation, merely by providing the postal service with a distinct legal structure, converts the problem of official governance to that of corporate governance-the creation of an optimal system of accountability and incentives within the postal administration. Therefore, explicit contracts are needed between government and the management of the postal enterprise so that the postal service can operate on true market principles. Without such disciplines, management and resource allocation decisions will not correspond to realities.

Dowson (1997:101), points out that corporatisation are borne of a need to become more efficient or the wish of the government to distance itself from the day-to-day running of the business. For some, corporatisation is a means to unbind public services from constraining political processes and legislation, enabling the organisation to improve efficiency and cope with change more effectively. For a small but growing number of other organisations, corporatisation is a stepping-stone towards complete privatisation.

## 2.7 PUBLIC PRIVATE PARTNERSHIP (PPP)

A PPP is generally taken to mean a contractual arrangement in which a private party takes responsibility for and assumes the risks for all or part of a public sector function. This could involve a partial or complete transfer of staff and other assets and/or resources to the private party, utilising the private party's staff, assets and resources at a predetermined price and according to these pre-defined performance criteria, or any combination thereof (Wragge 2000: 1).

Public Private Partnership is becoming increasingly used in various parts of the world, including UK, Australia and South Africa. It provides a means for both the public and private sectors to participate in areas, which were previously considered to be public responsibilities. The major benefits, which usually result, are the sharing of resources and risk.

According to Wragge (2000:1), the claimed benefits generally of PPPs are that access is gained to private sector design and innovation skills, project management skills and private sector finance. They are often used to access resources, which may not be available in the public sector, thereby speeding up development. They are also a mechanism for transfer of some or even all risk from the public to the private sector. A typical PPP would usually have the following characteristics:

- a) The private party typically invests in a capital asset and is responsible for maintaining and operating it over the life of the contract.
- b) The focus is on the services provided and not on the assets used.
- c) Risk transfer is a key element.
- d) State assets are often transferred or made available to the private party.

South Africa has developed its policies for PPPs to a reasonably high degree. They have massive infrastructure and services backlogs, which are beyond the capacity of the public sector to handle alone; consequently they are dependent on the formation of PPPs to catch up. However, it has been recognised that the

approaches to PPPs across government departments have been uneven, and their capacity to manage PPPs is somewhat fragmented and, in some cases, departments have adopted contradictory positions on regulation and risk allocation. To address these matters, the Cabinet has established an interdepartmental Task Team on PPPs to develop a more consistent approach. The task team has representatives from all stakeholders in the public sector and is tasked with the development of a strategic framework, Treasury regulations and national PPP guidelines. It is addressing the key constraints to successful implementation of PPPs and is identifying a package of legislative, regulatory and institutional reforms that will be required to strengthen the enabling environment.

Their strategy to support PPPs involves the establishment of a clear policy framework to ensure that PPPs are a coherent option for departments. Legislation is being refined to remove obstacles to the formation of PPPs; Treasury regulations are being developed to ensure sound expenditure control and prudent use of state assets and the provision of a simple but effective institutional framework to ensure that PPPs achieve value for money. A PPP Unit is being established within Treasury, which reports to the Minister. It contains staff with expertise in project finance, law and economics and can provide technical assistance to departments.

Treasury regulations are framed to ensure that PPPs are affordable, provide value for money and ensure that responsibility for identifying, procuring and implementing PPPs will reside with government departments. Treasury's role will be limited to sound expenditure control and the prudent use of state assets. Some general comments concerning the use of PPPs in South Africa include the following: Firstly, South Africa has embraced the PPP concept at the national level as a key strategy in overcoming some of its infrastructure backlog. Usage of PPPs is now widespread and increasing rapidly. Secondly, South Africa has embarked on a program of developing a 'PPP - friendly' program of legislative and regulatory development to ensure that a common, efficient and widespread approach is taken to the use of PPPs. A dedicated Unit has been set up at high level, reporting to the Finance Minister, to achieve this. Thirdly, considerable

effort is being put into the training of public sector staff in the various aspects key to the establishment and operation of PPPs. Fourthly, South Africa appears to have taken note of the UK approach towards PPPs. Bearing in mind the differences of the two environments; the UK approach may be both difficult and unsuitable for full implementation in South Africa.

The concept of a Public Private Partnership can cover a quite wide range of activities, from a co-operative major civil engineering project through build operate transfer projects, privatisation, service provision, utility operation to outsourcing of functions. Firstly, PPPs are not primarily about raising funds *per se* but are about obtaining value for money through a shared risk venture for a service. Second, projects must be affordable to both the state and to the users of the service provided as well as profitable to the private sector. Third, PPPs can operate at all levels of government, from national through regional, local to municipal. Fourthly, a major benefit of a PPP is that skills and resources available in the private sector can be harnessed to augment those available in the public sector. These can include design, construction, and operation. A further benefit is that innovation can be enhanced via application of private sector expertise. Fifthly, risk is shared between the sectors and additional capital resources can be accessed. A key success factor is achieving the right balance between the apportionment of risk and reward and lastly, a 'PPP- friendly' legislative and regulatory environment is necessary if the PPP is to thrive.

These legislative and regulatory frameworks must be non-inhibitory to the formation of PPPs and must be relevant, clear and understood. They should be as similar as possible across service sectors and apply to all relevant departments as well as to the private sector.

- a) Clear, complete and comprehensible contracts are essential for the benefit of both sectors. These should define the objectives and requirements of the project, provide necessary preliminary information, define the deliverables and penalties for non-deliverance, provide a schedule of payments against milestones or criteria and define exit criteria.

- b) Training of staff in the public sector is often required. Private sector staff should be aware of the regulatory environment.
- c) According to World Bank, any attempt to reform public enterprises without involving the private sector is largely unsatisfactory. And some of the reasons cited for not involving the private sector or for not giving up government control of the postal serviced are listed below:
  - d) The provision of the universal service will not respected;
  - e) The public service obligations will be abandoned;
  - f) Profit orientation will result in higher prices;
  - g) Workers will be made redundant.

The experience shows that while improving efficiency, public sector goals can also be accommodated under an institutional arrangement involving the private sector. Ranganathan (1998:17) is of the view that the public and private sector partnership is important because of the following:

- a) Governments increasingly feel that there is no longer a need for them to own or operate the postal service. Social service obligations could easily be built into the privatisation framework;
- b) Governments of developing countries would and should prefer to direct public funds toward poverty alleviation and investing in social sectors. Underwriting the losses of the postal service and investing in postal development are not priorities. Consequently, governments feel that if postal infrastructure needs to be developed to support economic growth, the most prudent approach would be to involve the private sector in the operations and financing of postal services.
- c) Implementing a comprehensive reform requires a strong institutional capacity that is typically not found in the current organisation of the postal service. Any form of private sector participation is an effective way of immediately strengthening the capability to implement and effect change in almost all areas of the business.

Within the South African context, to achieve social and political stability, government should ensure appropriate human development and assume a key role in addressing backlogs. In this regard, both government and the private sector are expected to make significant contributions. Specific lessons that have emerged from the South African scene are the necessity to form partnerships with the private sector. The new government has undertaken to work out policies in consultation with all role players. This implies avoidance of prescriptions and allows for the flexibility in the roles of the various actors within the South African economy. Hence, co-operation and partnership between the state and private sector is sought.

## **2.8 PRIVATISATION**

There are many different definitions for privatisation. A few are mentioned below:

The White Paper on Privatisation and Deregulation (1987:8) defines privatisation as follows: Privatisation means the systematic transfer of appropriate functions, activities or property from the public to the private sector, where services, production and consumption can be regulated more efficiently by the market and price mechanisms.

According to Deloitte, Haskins and Sells (1985:5), privatisation or divestiture means the sale, partially or complete, of an entity partly or wholly owned by government.

According to Yoshikazu Kanoh, president of the Research Institute on the National Economy of Japan, privatisation has three meanings (Takano 1992: 84): The first definition of privatisation is non-nationalisation. Strictly speaking, ownership is transferred from the public sector to the private sector through the sale of shares (including the transitional stage in which the right of management is transferred from the government and independence is granted, even though the government still owns shares). The second refers to a policy for the liberalisation or relaxation of regulations. The third refers to a policy of utilising private-sector capabilities, in which the provision of some services is consigned to the private sector. The third definition also referred to the contracting out of

certain functions. This might be an opportunity for the involvement of informal sector capabilities in the public sector. According to Leon, the primary objective of offering public goods for private sale was to turn loss-making state operations into robust, efficient enterprises.

Privatisation is not an event; it is a process (Takano 1992:1). Various methods of privatisation exist. Privatisation can mean liquidation; both formal and informal forms of mothballing, whereby operations are suspended, but the public sector enterprise retains a legal and economic life; privatisation of ownership through the sale of the firms as a going concern or of all or part of the assets and privatisation for management through leases and management contracts. Privatisation can also be a much broader concept encompassing the general reassignment of property rights from the state to the individual (as in Chinese agriculture): contracting out the delivery of public services to the private sector (such as garbage collection and cleaning or public building) and cutbacks in state activities to allow room for private initiatives (Shirley 1989b: 33,34). According to World Bank experiences, successful privatisation requires a policy framework that fosters competition. Thus, parallel reforms in Mexico, New Zealand and Chile, for example, increased the scope of market forces in the economy prior to and during privatisation. The key is a clear regulatory framework that promotes efficiency. Chile is almost a textbook case in this regard. A study of its regulatory framework for energy found that the regulations ensured efficient operation under both public and private ownership. By contrast, some privatising countries have treated the regulatory framework as part of the negotiated deal. This is highly ill advised as it can lead to pricing and market – entry decisions that work against efficiency (Shirley 1991:27-30).

The White Paper identified four methods of privatisation, namely, the sale of the public sector enterprises and assets, partnerships between public and private institutions, leasing of business rights, contracting out of activities and the discontinuation of services or activities previously provided by the public sector (White Paper on Privatisation 1987:9). Authors such as Brand 1988 and Thomas 1989 points out a number of conditions to be met if the privatisation should be successful. The conditions include the need for government to limit its

involvement in the economy, the creation of a competitive environment and institutional restructuring of public sector entities to allow for clearer accountability. This issue is recognised in the White Paper that deals with deregulation on equal level and is regarded as necessary for privatisation (Brand: 1988).

Privatisation has recently become a common feature in state-owned enterprise reform programmes in developing countries, for a number of reasons. First an upsurge in interest in privatisation recurred in the developed world, most notably in Britain, but also recently in Italy, Spain and France. Secondly, in some countries there is a sense that the state sector has become too large, that peripheral endeavours are diverting public money and managers away from priority activities of government, and that privatisation can reduce the managerial and financial burden of state-owned enterprises on the state. Thirdly, there is the hope that privatisation will lead to more innovative management which will see opportunity unfolding more quickly and seize it more aggressively, and will generally use resources more efficiently.

According to Shirley (1989b: 33) and World Bank studies, privatisation is seen as a force for efficiency not only because non-viable private firms are likely to have a lower survival rate than public ones, but also because common state-owned enterprises managerial deficiencies, such as slow decision-making due to political-bureaucratic requirements, a preoccupation with processes rather than results, a neglect of markets and clients, and a management environment in which reward is only remotely related to performance, are expected to be less likely in the private sector. Moreover, financial transactions between government and private firms are expected to be more transparent, and hence more carefully considered. Fourthly, increased popular participation in ownership of national assets is an important consideration in some countries (Chile, for example). Fifthly, some governments see privatisation as a way to raise revenues (one of the reasons given for sales in Thailand, for instance). And finally, divestiture is important as a way to reduce fiscal and credit pressures by getting rid of unprofitable state-owned enterprises through liquidation and sales.

Formal liquidations are also few; informal closures are more common. Instead of shutting down a state-owned enterprise, selling off its assets, and legally ending its existence, governments tend to close the firm, cut off subsidies and new credit, and gradually reduce the staff through attrition. The company may be allowed to meet its payroll through the sale of inventories or peripheral activities (for example, workers at a closed sugar mill in Panama were using the company's trucks to sell transportation services) (Shirley 1989b: 33).

Underlying the use of privatisation and commercialisation as an investment of economic policy is a revised view of the state's role in an economy. According to Pim Goldby (1988:3), the revised views in countries worldwide have been brought about by such considerations as state budgetary restraints, the unsatisfactory performance of some state-run enterprises, the contribution of state-administered prices to the high inflation rates, recognition that state-owned enterprises often face conflicting problems of management and control, capitalist reaction to over-centralisation, stiffer international competition, the increase of government involvement in the economy, and stagnating growth rates.

The common denominator in all the above-mentioned aspects is a recognition that the expansion of the state's economic role in many countries has been unacceptably high and has resulted in pressure on taxes. This recognition has caused an examination of the government contribution to economic growth, a revaluation of the role that private enterprise can play; and a focus on the obstacles including regulations to the performance of this role (Pim Goldby 1988:5). A World Bank view is that successful privatisers usually began by preparing the public sector organisation. According to Shirley (1991:27-30), they did this by changing management and introducing a better corporate culture in their public sector enterprises.

Ramanadham (1989:25) also identifies the problem of state-controlled firms, as being the diverse nature of government that is, state-controlled firms are obliged to deal with different agencies and inconsistent demands.

In analysing the state's role and the performance of its agencies and enterprises relative to the private sector, Pim Goldby (1988:5-7) identifies two problematic areas that have been primarily considered, namely:

### **(A) PROBLEMS OF MANAGEMENT AND CONTROL OF STATE ENTERPRISES**

Increasing complexity in national economics where the state's involvement has grown has highlighted the importance of proper management control. Essentially, motivation and performance suffer in public sector enterprises where the responsibility is not commensurate with authority or where measurements of performance are unclear. This is often the trend in state organisations run for public benefit and where the managers themselves do not enjoy ultimate responsibility (Pim Goldby 1988:6).

A process of change, which provides clear objectives for management and clarifies responsibility and accountability, can help remedy problems of management and control. This usually has to be supplemented with greater flexibility in hiring management and employees in the public sector; more flexible remuneration schemes to attract key managers; and productivity-related schemes and incentives for managers and employees (Pim Goldby 1988:6)

### **(B) EFFICIENCY AND COST-EFFECTIVE PERFORMANCE**

Efficiency and its measurement are key issues in examining options for structural change. Two categories of efficiency are frequently used, i.e., allocative efficiency and technical efficiency (Pim Goldby 1988:6)

Allocate efficiency enquires whether prices reflect costs and whether there is cross-subsidisation between activities. Some public sector organisations perform various activities, reflecting a diversity of services. In addition, the existence of many services is seldom entirely dependent upon prices (direct income) but often supplemented by tax revenue, and the amounts provided often reflect a perception of the social desirability of the services other than a price-driven demand for a product or service. In this environment the ability of market

forces to highlight cost inefficiencies through competitive pressure on pricing is often restricted or lacking.

Technical or internal efficiency enquires whether outputs are being produced with the most economical mix of inputs or resources. The private or commercialised sector offers the manager greater flexibility and freedom in his choice of inputs and his application of business management principles relating to issues such as organisation objectives and strategies, staffing and incentives, management of financial and other resources and union negotiations. Structural change may, therefore, improve technical efficiency by altering the framework of management control.

Before deciding on commercialisation or privatisation it is important for the government to assess the fundamental objectives for which the public sector enterprise was created, determine that these goals are still solid, and then decide which public sector enterprises should remain public, which need restructuring and which should be privatised or liquidated. The government then classifies the state-owned enterprise and sets a timetable for action. Government tends to classify public sector enterprises as strategic or unessential (Shirley 1989b:14). A strategic or essential public sector enterprise could be classified, according to the White Paper on Privatisation and Deregulation (1987:11), as those activities that are of public interest and part of government functions, like defence. Unessential activities could be privatised or commercialised.

Privatisation is only the end of a process; perhaps the least important part of the four elements being deregulation, commercialisation, corporatisation and privatisation (de Waal 1990:2).

Ranganathan (1998:95), noticed that postal administrations, like many government bureaucracies, are overstaffed, their assets are not aligned with their operational requirements, and their operating procedures are not up to standard and are outdated. He cited several reasons for such inefficiencies:

The commercial aspects of a postal administration are not accorded primacy. Therefore, the postal service is neither required to attain operational efficiency nor is it rewarded for such efficiency.

The social obligations of a postal service often take precedence over, and are not reconciled with, the service's commercial goals. Thus, the postal service is required to provide unpaid services to the government, the costs of its universal obligations are neither quantified nor compensated for, and it cannot restructure the postal network or its own employment because of social and political concerns.

In many countries the postal service has grown in an unfocused way. Unfortunately, expansion has not always been targeted to the best use of resources. For example, a common tendency is for postal services to augment their staff and network of post offices in an attempt to reach more customers, whereas resources may have been better spent in consolidating, modernising, or restructuring other aspects of the collection, mail processing, or distribution systems.

Under the above circumstances, a considerable amount of restructuring would be necessary to bring about internal efficiencies. As the world's postal services have become more commercially oriented, their privately owned competitors have intensified criticism of government 'interference' in the market place. A small number of countries (such as Sweden and New Zealand) have responded by deregulating the postal industry altogether. But the two nations have taken a different approach: the Dutch and German governments are selling their post offices to private owners. In order to preserve universal, affordable mail service, both governments are allowing the new private postal companies to retain monopolies, albeit narrower in scope (Postal Record 1997:11).

## **2.9 Conclusion**

Different forms of restructuring have been dealt with in this chapter. The idea being to differentiate all kinds of restructuring and how were they used in different circumstances and in different countries. Also, to understand how different authors perceive these concepts and how were they used and applied. Different

people used some of these concepts differently and as a result other people become confused in the process, the rationale for defining and exploring the views of other authors was to clarify those misunderstandings.

The next chapter deals with the progress made with respect to postal reform in South Africa from commercialisation in 1991 up to the stage where government decided to acquire the services of the SMP.

## **CHAPTER 3: POSTAL REFORM ACHIEVEMENTS IN SOUTH AFRICA**

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### **3.1 INTRODUCTION**

The purpose of this section is to review postal reform achievements in South Africa. This section merely intends to describe some important events and also present some views and in particular aspects like legal framework, regulatory framework, quality of service, retail networks, rebalancing of the network generally, technological developments, etc. The study will then proceed by examining the transition from monopoly to competition with regard to postal services. It finally explores some problems and opportunities in the context of deregulation and the universal service obligation.

Ranganathan (1998:23) mentioned that for the postal reform to be successful, the four broad principles should be adopted:

Principle 1: A reform program should be initiated immediately if the country is faced with a poor quality postal service or if the postal service is unable to generate or raise sufficient funds for its development. Also, if the sustainable of a low cost universal service is being threatened by growing competition (owing to volume erosion).

Principle 2: A comprehensive reform program should be undertaken. Many countries examined for this study have implemented independent programs in several functions of the post office or have undertaken partial reforms. Although these efforts lead to some improvement in those particular functions, very little global benefit in the overall postal service is realised. This is one of the primary reasons why several countries have spent a significant amount of resources on improving the postal service and yet have failed to improve the service at the customer end.

Principle 3: Traditional beliefs should not be allowed to limit the nature and scope of the reform effort. This is particularly true in dealing with sensitive aspects such as universal service, monopoly, competition, market definition, social obligations, and private sector participation. It is time for postal sector to respond to these changes.

Principle 4: Governments should take charge of the reform program. Since a comprehensive program includes legal, regulatory, and institutional reform components, the management of change has to come from the government, not from the post office.

This study seeks to review the postal reform based on the four broad principles as suggested by Ranganathan.

## **3.2 LEGAL REFORM**

The South African Post Office is a Limited liability company wholly owned by the government being a portfolio of the Department of Communications. The Department of Communications is the public service arm of the Ministry of Communications responsible for the Posts, Telecommunications and Broadcasting sectors. This department is a policy-making body for postal, telecommunications, and broadcasting services in South Africa and it is also responsible for various portfolio organisations such as, The South African Postal Office Limited, South African Telecommunications Regulatory Authority (SATRA) and South African Broadcasting Cooperation (SABC) and others.

On behalf of the government, the Minister of Communications holds all of the shares in the Post Office. The Post Office is governed by a Board of Directors, accountable to the Minister (White Paper on Postal Policy, 1998:36). The Ministry pursuant to the Post Office Act has regulated the Post Office. The Post Office Act gives certain authorities to the Minister who in turn has delegated certain regulatory functions between the Ministry and the Post Office. The Post Office Act of 1958 delineated the South African Post Office's ownership, control, and functioning specifications, vesting in the government all regulatory and operational functions. In 1968, the Post Office Re-adjustment Act directed the Affairs of the Post Office to be administered according to sound business principles. This gave the Post office greater financial autonomy, and saw a post Office Staff of Board created to adopt the personnel functions of the government.

The formation of two separate companies on 1 October 1991 to operate within the two different industries (posts and telecommunications) was accomplished by

the promulgation of an amendment to the Post Office Act during 1991. This amendment defined the core business of the company as postal and savings bank services. However, although the SA Post Office Ltd. was registered in terms of the Companies Act, 61 of 1973 (as amended), the first mentioned Act determined that the government of the day would be the sole shareholder of the company with the resultant retention of the crucial influence in respect of *inter alia* the strategic direction of the Post Office and the determination of the tariffs in respect of the core business of the company.

The change in status also had a direct influence on the management of the Post Office in that legislation, against which the company was previously "protected" by virtue of its status as a government department, became factors, which had to be seriously considered. The following Acts have a major impact on a broad spectrum of activities while many others, although not less important, are confined to specific areas of operations:

Basic Conditions of Employment Act, 3 of 1983 (BCEA)

Labour Relations Act, 66 of 1995 (LRA)

Occupational Health and Safety Act, 6 of 1983 (OHSA)

Companies Act, 61 of 1973 (as amended)

Vat Act, 89 of 1991 (as amended)

The results of the 1994 elections had the additional effect that not only the country but also the Post Office regained access to the international community. The initial phase was re-admittance to the Universal Postal Union (UPU), which not only promotes co-operation between international postal administrations but also provides access to their expertise. However, the immediate benefit derived from this step is the affiliation of payment of international accounts that the UPU administers. As far as Africa is concerned, the Post office is an active participant in the Southern Africa Development Committee (SADEC) as well as the Pan African Postal Union. These organisations do not benefit the Post Office directly,

but the co-operation of participants facilitates the solution of problems in respect of the exchange and transportation.

In April 1996, the postal services in the former TBVC States were incorporated with the Post Office, through "the Former States Posts and Telecommunications Reorganisation Act, 1996". SAPOL has evolved through various legal structures in the postal service: as a government department since 1910 to a commercialised business entity in 1991.

Adoption of the White Paper on Postal Policy paved the way for the new legislative reform, which resulted in the enactment of the Postal Services Act No. 124 of 1998:10, which repealed certain sections of the Post Office Act No. 44 of 1958. With the signing of the Postal Services Bill by the State President in December 1998, the Postal Services Act became law and came into operation in January 1999.

### **3.3 REGULATORY FRAMEWORK**

There are few cases of regulatory reform in the postal sector and most developing countries have preserved the original monopolistic structure with no changes in the scope of exclusive privileges since the creation of their postal services. However, owing to the problems of enforcement, the number of private sector operators is on the increase although the operations of these service providers are considered illegal. Governments are reluctant to open postal markets. Even the European Union, which has been liberalising many markets within it, has decided that it will reduce but retain the exclusive privileges for letter mail for the time being (Dowson 1997:183). The trend toward diminishing monopolies in the postal market continues and is being driven by the multiple factors, which exerts strong influence on policy makers. Some of these trends are globalisation, diminishing monopolies, changing national economies and the development of new technologies (Dowson 1997:238). Throughout the world, governments are liberalising their postal environments, monopolies are being reduced resulting in both weights and prices of protected letters and packages being lowered dramatically. Competition is pushing its way through regulatory

doorways expanded by a reduction in prohibitions against use of private carriers, in the spread of substitute technologies facilitating both communication and commerce, and in the dramatically higher expectations of both small and large customers (Dowson 1997:38).

However, postal services in South Africa do not operate in a vacuum. These are services, which influence, and are in return influenced by a series of social and economic factors. The Post office has a traditional monopoly in terms of the Post Office Act to provide postal services to the public (Postal Services Act, no 124 of 1998:16). After the White Paper was approved in Parliament in 1998, the monopoly in the letter mail was reduced from 2kg to 1kg (White Paper on Postal Policy 1998: 18). In the same way postal activities affect the economy, the economy has an impact on the level of postal activity. In accordance with the license issued to the Post Office, the exclusivity will be reviewed every three - (3) years SAPOL License (2000:32). The objective is to continually deregulate the market in order to promote competition in the postal sector. The level of demand, and the degree of sophistication with which this demand is satisfied, tend to divide the postal world into different categories.

### **3.3.1 PROCESS FOR THE DEVELOPMENT OF A REGULATORY FRAMEWORK**

South Africa inherited a postal policy framework and consequently postal service provision, which were distorted by:

- a) An apartheid legacy which is characterised by inequality in access to postal services particularly in the black communities in the urban and rural areas;
- b) A monopoly mentality which has translated into poor customer service and unhealthy reliance by the South African Post Office on the government financial subsidy for its operations.

A technical task team was appointed in September 1996 to formulate the Postal Policy Framework. This resulted in the drafting of a discussion document. A consultative conference was then held which resulted in the formulation of the Green Paper on Postal Policy. Parallel to the Green Paper

process, a review of the Post Office called FuturePost was undertaken by Price Waterhouse and Ebony Financial Services with a view of restructuring the Post Office. From this exercise, a detailed report was produced which constituted the basis for decisions regarding the restructuring of the Post Office and the new coherent policy directions. The report's recommendations were considered in the White Paper process. A formal statement of Government policy, the White Paper, was then developed. This paper presents a comprehensive policy on postal reform to re-position the Post Office and to develop the postal sector as a vital part of the economy. The overall consultative process is shown below:

**FIGURE 3.1: PROCESS FOR DEVELOPMENT OF REGULATORY FRAMEWORK**

<b>EVENT</b>	<b>KEY POINTS</b>	<b>TIMING</b>
Set up of Technical Task Team	To draft the White Paper	September 1996
Issue of Discussion Document	Consultative document	November 1996
Draft of Green Paper	Consultative document	January 1997
Launch of Green Paper	Inviting comments from the stakeholders	July 1997
Submissions on Green Paper	Submissions from interested parties	September 1997
Preparation of White Paper	Based on Green Paper responses	November 1997
Launch of White Paper	Government Policy	May 1998
White Paper tabled	White Paper tabled in Parliament	May 1998
Draft of Postal Services Act	Consultative document	June 1998
Submission to State legal advisers	Certification by State legal advisers	July 1998
Act tabled	Act tabled in Parliament	July 1998
Act ratified	Act ratified by Parliament	November 1998
Act signed by President	Act becomes law	November 1998
Act promulgated	Act enacted	January 1999

### **3.4 THE POSTAL REGULATOR**

The postal sector in South Africa has never been regulated in detail. Before the present Postal Services Act came into force in January 1999, there was no special legislation regulating the performance of postal activities. A regulator known as the Postal Regulator is established within the DoC in terms of Section 3 of the new Act. It is established in order to oversee the quality of reserved and universal services and to ensure that all operators respect the reserved area. In order to ensure that the user's interests are best served through the impartial treatment of all operators, it was recognised that regulatory and operational functions should be separated. The scope of regulation involves oversight of the access conditions, costs, prices, and service quality of universal services, not merely reserved services. The Postal Regulator is a watchdog for the postal industry. As such it is responsible for implementing postal policies by performing a broad range of regulatory functions. Like any other regulatory regime, it has the power to regulate the postal industry with a high degree of independence.

The Post Office tariffs, excluding tariffs applicable to courier services, are subject to approval by the Postal Regulator. Regulation is required primarily to counteract monopoly power, its extent and nature as determined by the industry's structure and the existence of actual or potential competition. It is also required to promote a competitive market and to protect the interests of consumers in those areas where competition has not yet developed. It advocates for increased efficiency, lower prices, and better quality by promoting competition and protecting consumers' interests in markets which are dominated by powerful incumbents, and in which there remained large elements of monopoly.

Regulation is seen as a temporary phase; necessary only until the appropriate market-based mechanisms are put in place. It assumes overall responsibility for the postal market operating effectively from the viewpoint of the consumer. The responsibility of regulating the postal sector has been separated from the public operator, which is the Post Office. The regulatory supervision is now a function of the Postal Regulator established in terms of new Postal Services Act of 1998.

In many developing countries, fundamental regulatory issues such as tariff levels, the Post Master General (PMG) effectively determines structure and increases whereas in South Africa, this is the role of the Postal Regulator.

The functions of the Regulator as outlined in the new Postal Services Act no 24 of 1998 include the following:

The exercising of the regulatory functions in respects of postal services;

Ensuring that the provisions of the new Act and the terms and conditions contained in any license are complied with;

The promotion of the interests of users of postal services in respect of the cost of reserved services, the continuity of postal services and the quality thereof;

Ensuring that all reasonable requests for postal services are satisfied;

Promoting and encouraging expansion of postal services;

Promoting a universal postal service; and

Regulating the issue of postage stamps.

With respect to licensing, the Postal Regulator as part of its responsibility, licenses the Post Office and registers all the courier companies that operate in the unreserved area. In that license developed for the Post Office, targets with terms and conditions have been set and the Post Office is expected to meet, failure to meet those targets, penalties are imposed.

### **3.5 QUALITY OF SERVICE**

Postal service is an important service sector in any economy. It is the national vehicle for providing affordable basic communication services to the entire population. Moreover, it is an important infrastructure for the businesses to access individuals or other businesses, and to facilitate commerce and trade efficiently and effectively.

Many developing countries' postal service operates with poor quality of service. There are two important measures of quality of service: coverage of the postal service which indicates how well the postal service is positioned so that people can have easy access to the service; and delivery performance-i.e. How long does it take to deliver mail items (The World Bank. Postal record. 1997)

For SAPOL, performance levels, which are measured against set delivery standards, are improving. In five of the Post Offices' six geographic regions covering eight provinces, performance measured against set delivery standards are at 90%, with two regions having a performance level of more than 95%. For instance, in other regions the actual delivery performances are:

Eastern Cape Region	98%
Western Cape Region	95%
Central Provinces Region	93%
Northern Region	89%
KwaZulu/ Natal Region	85%

Source: Post Office Profile 1999

Performance levels are audited on a regular basis and an independent company monitors delivery standards and compiles the vital statistics. The new standard has been implemented on 1 April 1993 and the Post Office is now publicly reporting the results of an external agency that is measuring the actual performance against set delivery standards. However, with the establishment of a Postal Regulator, this function now lies with the independent monitor appointed by the Regulator (Postal Services Act 1998: Section 26(1)). This independent monitor renders this service on behalf of the Regulator and does submit the quarterly reports on the performance of the Post Office. According to the report from the Postal Business Forum, it shows that the quality of standard has improved. This is displayed by;

- Improved efficiency and productivity
- Number of employees being reduced

- Elimination of excess overtime
- Cuts in night shift allowances
- Shift changes in hubs.

**Delivery standards figures**

	7/98	11/98	6/99	3/00
Within towns within regions	46	60	63	67
Between towns within regions	72	85	85	86
Outward	87	90	92	93
Inward	76	83	87	91

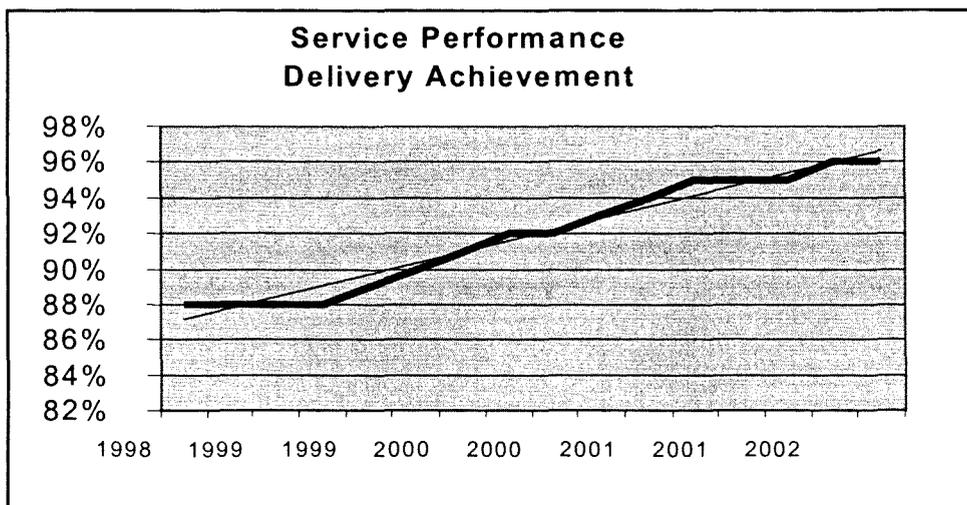
**Mail violations**

	1999	2000
Total dismissals	92	39
Number of cases	1721	890
Referred to SAPS	98	11

Source: Postal Forum 23/08/2000

For the first time, DMA, an association that represents major businesses express their satisfaction about the current postal delivery performance. They say, the current postal delivery performance is the best they have had for many years and there is a significant improvement in both speed and consistency. The following graph indicates overall projected delivery performance for all destinations.

**FIGURE 3.2: SERVICE PERFORMANCE PROJECTION BEING A PERCENTAGE OF DELIVERY MEETING DELIVERY TARGETS**



Source: Post Office Business Plan 1998/1999

With the introduction of the SMP, the performance targets are set at 96%. In April 2000, the Post Office reduced its delivery performance, by one day. The new delivery standards as set out in the Post Office license (2000:32) are as follows:

Speed Services couriers and within town - delivery within one day

Fast mail -delivery within two days

Ordinary mail inside the same metropolitan area -delivery within two days

Ordinary mail between major metropolitan areas -delivery within three days

Ordinary mail to remote and rural areas - delivery within four days

### **3.6 RETAIL NETWORKS**

There has been a wide disparity in postal network coverage, resulting in poor, and in some cases unacceptable, level of access to network among historically disadvantaged segment of the population and geographical areas. Moreover, due to poor outlet coverage in these areas (resulting in poor use of service, and thus poor demand), there is no address delivery (The World Bank: 1997:10). This is the premise where the SAPOL is coming from.

A programme of re-balancing the retail network as proposed in the White Paper has started. In looking at the potential services to be offered by post offices the retailing and financial agency network of SAPOS emphasis is placed on the establishment of post offices or postal agencies in the community as a centre of community services. The network of post offices and postal agencies, which constitutes the infrastructure of service points available to the public, has been increased to more than 2460. The government in the negotiations with the new SMPs, an agreement was reached regarding the re-balancing of the network and that the postal outlets will be increased from 2460 to 3 200, reduce the number of traditional post offices to 920 from 1 191 and open 80 franchises by 2001. This

is in line with its reconstruction and development programme aimed at redressing past imbalances brought about by decades of apartheid (Stuart: 2000).

**TABLE 3.1: NUMBER OF SERVICE POINTS**

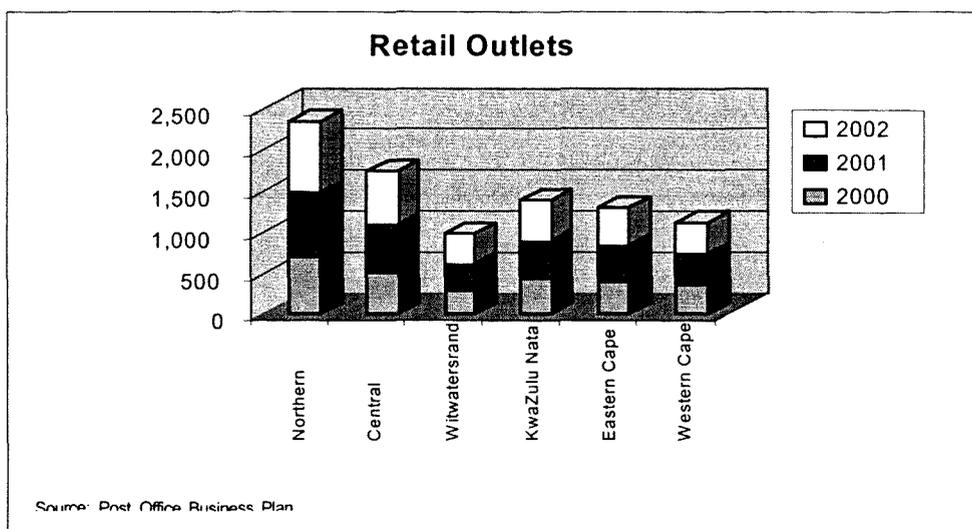
<b>Retail Outlets</b>	<b>1998</b>	<b>1997</b>	<b>1996</b>	<b>1995</b>	<b>1994</b>
Post Offices	1427	1439	1402	1578	1638
Postal agencies	127	212	175	453	420
Retail Post Offices	124	92	50	2	0
Retail Postal Agencies	792	645	395	0	0
<b>Total</b>	<b>2460</b>	<b>2388</b>	<b>2022</b>	<b>2033</b>	<b>2058</b>

Source: Post Office Profile Bulletin: 1999

In other words, some 439 traditional post offices will be closed, repositioned or amalgamated with more strategically situated offices, Post points, new type retail agency outlets and Franchises. In total, an additional 748 outlets will be opened in the historically disadvantaged which will represents an increase of 66%. The following graph depicts the expansion of retail outlets across the regions over the three-year period starting from 2000-2002 (Stuart 2000).

South Africa's postal network is expected to play a significant role in promoting the ownership of shares by blacks in privatised state enterprises. Parallel to this process of re-balancing the network, the appearance and image of the postal outlets is being reviewed. (Chalmers: 2000b).

**FIGURE 3.3: NEW RETAIL OUTLETS COMMISSIONED PER REGION**



The re-balancing of the network is undertaken in conjunction with a rework of the staffing levels required in each outlet. The Post Office Management System is utilised to undertake the re-balancing of staffing levels and to provide valuable profitability information on each type of postal outlet.

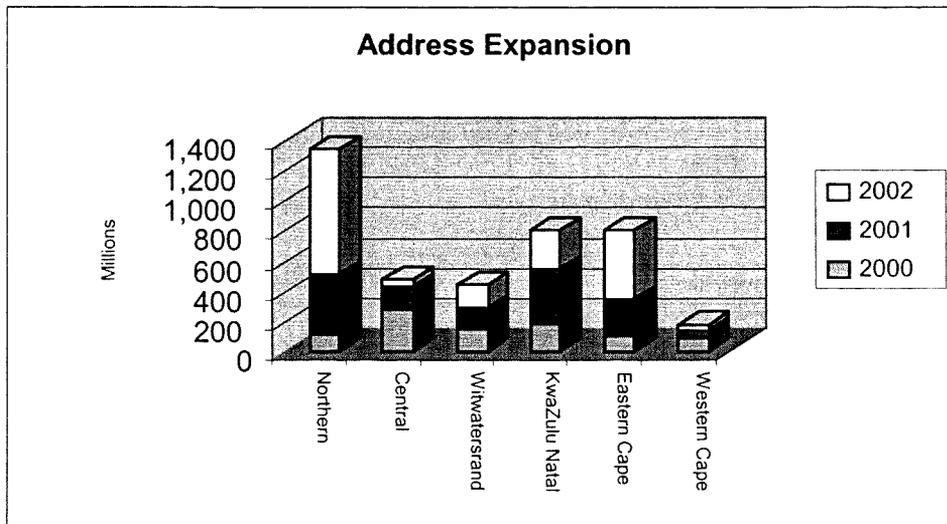
### **3.7 ADDRESS EXPANSION**

To a postal administration, an address is an asset. Since April 1994, cluster boxes and transportable post box lobbies have become communication beacons throughout the country and a million additional address boxes have been placed around the country. Presently, the Post Office delivers mail to approximately more than six million addresses of which 3.4 million are street addresses, one million address boxes at transportable mail collection points, one million address boxes at permanent mail collection points, one million private post boxes and a few thousand of private bags and virtual addresses (PriceWaterhouse 1997:C-7).

Within given parameters the SAPOL has undertaken to standardise delivery practice across all regions, always allowing through a national forum, a mechanism for innovative ideas to be developed locally and brought to the attention of the national forum. This forum will then agree on best practice and then roll this out to other regions (Postal business forum 2000).

Priorities are developed according to agreed national policy. During the three-year SMP contract, the two new partners i.e. New Zealand Post and British Post Consultancy Service made an undertaking to rollout an additional four million addresses in townships and other underprivileged areas (Chalmers: 1999a). As of 7 August 2000, the Post Office is well advanced on some of the social targets. It has rolled out an additional 800 000 addresses in just nine months after the new SMP came into being. It has a target of 906 000 addresses to be rolled out by the end of September 2000. The government wants the Post Office's mail delivery service to reach 11 million households (Stuart: 2000). The following graph depicts new addresses over the three-year period, in each region.

FIGURE 3.4: ADDRESS EXPANSION PER REGION



Source: Post Office Business Plan 1999/2000

The roll out of addresses is done in the following order of priority: street delivery, box delivery, virtual addresses and poste restante.

### 3.8 TECHNOLOGIES AND NEW SERVICE DEVELOPMENT

The real issue of postal businesses worldwide is how to position their products and services to compete effectively in this rapidly changing market. According to Crew 1997:390, postal operators need to break down the barriers and meet the challenges brought about by the technology and seize control of their destiny. Postal business can only do so if they are competitive and service oriented.

If the postal service is to survive it will have to develop new products, compete with private companies to capture a significant share of the e-commerce deliveries and adapt to new technologies. In order to succeed, the postal service must fully understand the nature of both the threats and opportunities facing it. The new era of e-commerce and communications spawned by the worldwide web of computers has an upside. The most obvious example: on-line shopping means more demand for home deliveries.

The challenge facing the SAPOL and other operators who depend on it for their livelihoods is to catch the wave, not be swept away by it. The key question is how to balance the impact of the electronic diversion of mail with the commercial

opportunities the new technology offers. According to the Director-General of the UPU (Dowson 1997:32), technology has been a generator of growth for physical mail. Countries have used transportation technology to deliver mail to customers more rapidly and have used technology for improvements to their infrastructure, from postal counters to the automation of the postal processing chain.

There has been significant investment in a variety of new systems in the South African Post Office over the past few years, in particular new financial and logistics systems, new counter technology and new back office systems for funds transfer and banking. Providing technology support for the effectiveness and efficiency of postal operations is a core part of the overall improvement programme that has been introduced to the South African Post Office. The implementation of specific information technology supports the following operations: Collection, Processing and Delivery of Mail; Community Information Dissemination, and Retail Counters. To expedite counter services, a new on-line computer network is being installed countrywide. As all counter transactions will be done electronically through Post link, it will reduce paperwork to a minimum and thereby expedite counter services and cut the waiting time in queues at post offices considerably. The programme of computerising counter terminals is well underway and some 5000 selling points will be on line- facilitating all post office business (SMP report 2000). This will be possible through the new system, Post link, which entails:

Computerisation/Automation of all counter transactions resulting in more prompt and faster service

Capturing and storage of all storage transaction material

Elimination, where possible, of paperwork and standardisation of forms that must be retained of necessity

Simplification of procedures and money transfer services

The development of this sophisticated system does not only fulfil the South African Post Office's needs, but it could place the company in the foreground for rendering the community services. Post link, the on-line point-of-sales system

will make an essential contribution to the operation and image of the company (Chalmers: 1999a). Post link further involves a more streamlined and simple postal and money order system, which is vital to a large part of the population. The postal sector is in transformation due to the technological evolution in the sector itself. The real threat to the postal industry will come from other communication means such as faxes, e-mail, data networks etc.

### **3.8.1 MULTI PURPOSE COMMUNITY CENTRES (MPCC)**

MPCC are structures that have a variety of facilities and the idea is to improve co-ordination and delivery of a range of rural communities programs, and to redress barriers to rural people's access to a range of government and other social economic and rural services. The South African Post Office is contributing to the community by actively participating in the development of Citizen's Post Office, serving as an interface between government and the community. The Citizen's Post Office is providing universal and affordable access to a digital service, particularly to rural and disadvantaged communities through the existing retail network, ensuring that citizens in rural areas and small towns are not excluded from the information age and the potential benefits. The aims are to facilitate the transformation of government through re-engineering service delivery to move to the delivery of government services via the Internet and other electronic distribution channels. This will provide a choice of several access methods, specifically through PIT, home PC's (via the Internet) and free Internet PC's located in public libraries (DoC. MPCC working document 1999)

### **3.8.2 ELECTRONIC COMMERCE**

Within South Africa (and potentially the African continent) the South African Post Office has some key commercial and operational relationships in the paper mail world that can be translated to the electronic world. On the downside, the South African Post Office's corporate and consumer profile does not, today, meet those prerequisites of integrity, trust and neutrality. In conjunction with New Zealand Post and Check Free, a new Bill presentation and payment service is being introduced. The service has been integrated

into the current South African banking and payment system (SMP progress report).

It is planned to establish a standalone Hybrid Mail business as a separate subsidiary Company of the South African Post Office. The business utilises New Zealand Post's subsidiary Company Data mail and other partnering organisations skills and technologies to establish the business (SMP progress report 2000)

### **3.9 HUMAN RESOURCE DEVELOPMENT**

The Post Office has currently some 30 000 employees in its service. The present racial mix in the Post Office consists of 46% whites and 54% of other racial groups (Post Office Profile 1998). A high premium is placed on the promotion of employment and occupational equity in terms of race, ethnicity, gender and the disabled so as to reach a situation where the composition of the staff complement at all levels of the organisation reflects the South African society. A new organisational structure will be introduced to provide a platform to improve South Africa's affirmative programme (Chalmers: 1999a). Targets have been put in place to address this situation.

The Post Office has created a National Negotiations Council consisting of Post Office management and recognised trade unions which meets monthly to discuss matters relating to conditions of service, salaries and new projects envisaged by the Post Office. At the time of the establishment of the Post office as a company, there were practices preventing sound business principles from being implemented. The Human Resource Group was also operating obsolete manpower systems that had to make way for business-oriented and client driven system. Decision-making on control was strongly centralised and this was reflected in the organisational structure. To eliminate these obstacles, as well as to bring decision-making as close to the point of execution as possible, and to expedite it, a three- point plan was launched (Chalmers 1999a).

The South African Post Office is an organisation in transition, existing to serve a nation in transition. In this environment the human resources function is pivotal to the initiation of effective change to implement features of the national agenda, and to create the new customer-sensitive and commercially successful business. The change processes required are significant. A very successful accelerated management-training programme was introduced early in 1992. Some of the participants in the first programme were selected on the basis of their proven ability for appointment in managerial positions even before completion of the programme. It is envisaged to extend the programme to accommodate more employees with potential and also to involve employees at an earlier stage of their careers. Their training focuses on cultural change in order to establish client-orientation and business principles among all employees (South African Post Office. 1998. Post Office Profile).

The South African Post Office is also improving counter services and retraining of counter staff to render those services clients expect from the Post Office through the Counters 2000 training programme. Since tellers and supervisors are the showcase of the Post Office, it is essential to establish a business - oriented culture among them. The Efficiency and Quality section was established to implement the training action. Various other training programmes are also in place, including various mail renewal and depot projects. If effective change is to be implemented management cannot act alone, or independently of the South African Post Office's staff and Unions. The SMP brings with it considerable experience in the development of constructive and effective relationships with the Unions, which go beyond the formal negotiating process, to the genuine and meaningful involvement in the development of business strategy (South African Post Office. Profile. 1998)

### **3.10 HUB FOR SOUTHERN AFRICA**

Due to its strategic geographical location on the southern tip of Africa, its developed transportation infrastructure and its road, rail, sea, and air links, South Africa has for many decades served as a transit country or hub for mail destined for, or originating in, foreign countries. For instance, surface mail shipped from

Great Britain to Botswana, Lesotho or Namibia is unloaded at Cape Town, where it is forwarded to its destination by road. Since there are no frequent flights from major foreign countries to South African neighbouring countries airmail dispatches are forwarded to Johannesburg International Airport for transshipment to airlines serving the routes in question (PriceWaterhouse 1998:62).

In management's view, South Africa is in ideal position to continue being a hub for incoming and outgoing mail for neighbouring countries as well as to increase the volumes of traffic handled. Cape Town and Durban have good facilities and sufficient resources to manage the surface/sea mail.

As far as airmail is concerned there are sufficient incoming and outgoing flights from all over the world for Johannesburg to play a prominent role as a transit point or hub for airmail coming into or leaving the Southern African region. However, the facilities were not adequate for the requirements of this operation. That problem would now be overcome because the Post Office has just opened the new mail facility at the Johannesburg International Airport (PriceWaterhouse 1999:20)

The challenge facing the Post Office is to counter-act the existing players in the global express, mail and logistics industry, namely DHL, TNT and UPS, who are aggressively locating Hubs around the world, which explicitly by-pass the normal mode of postal administration operations (Chalmers: 1999a).

### **3.11 GLOBAL ALLIANCES**

Global alliances in the postal and related sectors are currently being formed throughout the world. A continuation and acceleration of this activity is expected, as the postal sector is increasingly follows the globalisation trend evident in other sectors, and national boundaries become less relevant. NZPIL has formed a global alliance with the South African Post Office and also with British Post Consultancy Group. According to the PriceWaterhouseCoopers (1999:21), the formation of this alliance has the following major benefits:

- a) The ability to leverage new technology, new international techniques and overall Intellectual Property from a relationship with two of the World's leading Postal Organisations into the South African Post Office's day to day operations.
- b) An avenue for significant future development of operations and management staff through participation with New Zealand Post International Limited and British Postal Consultancy Service consultants in international engagements;
- c) The ability to develop future revenue from the international alliances that both New Zealand Post International Limited and British Postal Consultancy Service have, especially in ensuring that there is a strong revenue capture from neighbouring countries for the proposed new international hub; and
- d) The ability to seek and consummate bilateral agreements with two trading partners, one of whom is the major destination and origination point for international mail to and from South Africa.

This new partnership gives the SAPOL access to global alliances, exposure to international best practices. To set SAPOL on a sound footing, the British and New Zealand postal administrations indicated that they are going to draw on their own experiences and adapt them to local conditions.

By this global alliance, the Ministry of Post, Telecommunication and Broadcasting wishes to ensure that the Post Office is well positioned for the future. Inherent in this requirement is that the Post Office must be able to respond to and take advantage of the globalisation trend referred to above, in order to enhance its business prospects and its service to customers (PriceWaterhouse 1999:21).

### **3.12 CHALLENGES FACING THE POST OFFICE**

The bulk of the revenue of the Post Office is in the Mail business, which is generated from the rural communities where access to Computers is limited. At this present moment initiatives are in place to introduce Public Information

Terminals, Multi-purpose Community Centres and Telecentres to rural communities to facilitate access Government information and also to E-mail.

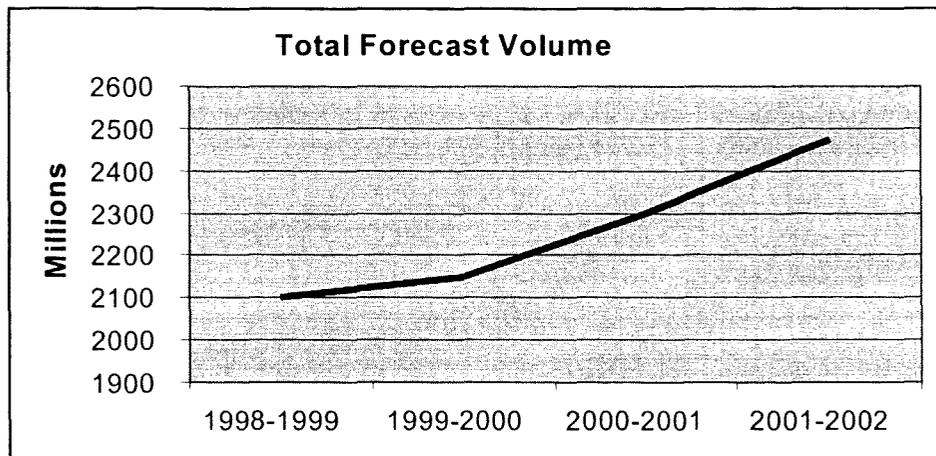
Key to achieving these objectives is the restoration of public confidence in the postal system by offering a quality and reliable service. Currently, the public is increasingly turning to competitive services for mail delivery and this is reflected in a continuing market share decline. Key concerns range from the lack of a speedy and reliable service to concerns about the honesty and trustworthiness of Post Office staff. It is therefore imperative that, improvements in the core activities of the Post Office take priority (PriceWaterhouse 1997:64).

One of the critical areas, which need to be addressed in an immediate sense, is post shop front counter equipment. This upgrade is essential as an enabler to reverse declining mail volumes and also to provide a strong platform for handling the growth initiatives planned during the SMP period. In addition, that will deliver a high level of customer satisfaction as well as providing a basis for the introduction of new products and services.

Once the above are addressed, a significant improvement in the core business efficiencies will produce improved service levels and result in a growth in customer confidence, leading to increased volumes. However, these factors on their own are not sufficient to meet the objective of achieving a sustainable financial position. New growth initiatives need to be introduced and programmes developed including targeting competitor volumes, thus improving market share.

Based on the extensive experience of New Zealand Post International Limited and British Postal Consultancy Service, a number of proven growth enabler projects have been identified as suitable for introduction to the South African market. The following graph indicates the volume growth projected for the three years of SMP involvement (SAPOL. Business Plan 1999)

**FIGURE 3.5: FORECAST MAIL VOLUME 1998-2002 BASED ON EXISTING AND SMP INITIATIVES**



Source: Post Office Business Plan 1998/1999

In addition, these projects have the potential to produce significant continuing growth over and above normal marketplace natural growth predictions, thus positioning the Post Office to expand selected services to the rest of the African continent. This is a key consideration in ensuring that the South African Post Office positions itself as quickly as possible, both in a financial and operational sense, to take advantage of these trends. Equally important, however, is ensuring that the capture of the efficiencies being planned in the operational area is aligned with the organisational structure and governance procedures. These must be sufficiently robust to provide the underpinning management strength to take the business forward. In adopting new technologies, focus must be broad to encompass the mediums of disseminating information-using technology. The Post office should also diversify their services to include portals for E-commerce, web designing; this will cater for businesses, which were relying on mail order businesses to supply services and to market their products.

# **CHAPTER 4: OVERVIEW OF INTERNATIONAL POSTAL REFORM: CASE STUDIES**

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## 4.1 INTRODUCTION

The purpose of this chapter is to outline several different approaches available to the postal service to meet these and related challenges. Special emphasis is made on the experience of other international postal administrations that have implemented similar approaches and the potential impacts on the implementation of these organisational, operational, and regulatory changes. This chapter also reviews and analyses the reform experiences of two countries: New Zealand and United Kingdom. The postal services of these countries have gone through varying degrees of reform and are at various stages of their reform processes. These postal administrations are not yet through with their reform program. For example, United Kingdom had embarked on a reform program many years ago and is still grappling with some serious issues.

The case studies are used but are not intended to show on how to reform the postal administration. But instead, to summarise the experience of the two major reforms in the world's postal sector, and to bring to the fore some major issues and lessons that pose different issues with regard to reform. More important, the study explains the approaches that postal services have taken to improve performance even when they have been faced with widely differing legal, institutional, and regulatory environments and bottlenecks.

This part of the postal reform study begins with the case of New Zealand Post, which is a good example of how a postal service, together with the government as the owner, has developed a policy framework that is symbiotic and fosters continuous performance improvement. That is followed by the case study of British Post Office, which highlights the need to free the postal service of unnecessary regulatory and institutional constraints to ease the way for further development in the postal service.

This chapter provides an overview of how the relationship has evolved in the following countries: United Kingdom and New Zealand. These countries are selected for overview because they have moved the farthest in attempting to make the government enterprises model work. In these countries the traditional

post office model of a money-losing government department has been updated to a Government Enterprise with a much stronger service orientation, and a profit objective.

#### **4.1.1 BACKGROUND TO NEW ZEALAND POST**

Few countries have received more attention in postal circles than New Zealand. Although the island nation is small (population of 3.8 million) of which more than 85% live in urban areas. The rural areas are well served by NZ Post as well as small private postal agencies, and crime is negligible (Chalmers: 2000a). It was among the first to commercialise its post office in the 1980s. Now, New Zealand is about to take the next big step toward total privatisation: deregulation.

NZ Post offers an excellent case study, which has commercialised successfully and through its transformation is well positioned for the future. In 1986, the New Zealand postal service, operating as a division of a government department, was losing nearly \$40 million a year and forecasts were that that deficit would balloon to \$50 million within several years. Today, NZ Post operates profitably in the form of a company structure and pays dividends and taxes to its shareholder the New Zealand government (Dowson 1997:77).

The operation was very labour intensive and over-staffed with about 40 000 employees and 700 contractors employed. The mail was delivered on time. Bureaucracy meant decisions took too long and decision-makers were hampered by rules and regulations. Politics often played a hand in any decision taken, overtaking a more commercial approach (Chalmers: 2000a). The asset structure was inappropriate: there were no modern mail processing plants, but there were 894 official post offices and 340 fixed-cost Agency post offices. Essentially, NZ Post's asset base was more appropriate for a retail banking operation than a modern postal business. Compounding its other systematic problems, NZ Post was being cross subsidised by telecommunications profits. When the subsidy was removed, a 30 percent increase in core prices was required if a break-even position was to be

achieved. NZ Post was also suffering from a lack of strategic capital investment with little money spent on upgrading facilities and equipment. How then did NZ Post reinvent itself so successfully that in November 1994 it was named "Company of the Year" in New Zealand? (The World Bank "Postal Record" 1997:14). The dramatic turnaround was achieved through a bold plan of commercialisation undertaken by the New Zealand government. Because of the extent of the public debt problem and the level of inefficiency of the government's business activities, the New Zealand government implemented a new strategy to improve the performance of state enterprises and trading activities. The main thrust of the strategy was to achieve the potential efficiency gains of the full privatisation without any change of ownership from public to private sector (The World Bank "Postal Record" 1997:15).

The government was encouraged to separate the postal service from the other businesses because of the post's deteriorating performance. Prior to 1987, the NZ Post, which was a department of the state, had been responsible for the provision of telecommunications services, postal services, and retail banking. Telecommunications constitutes 60 percent of revenues, while postal services accounted for only 25 percent and retail banking represented 15 percent of revenues. Under this arrangement, the postal sector suffered from the following constraints:

Decision-making was centralised

Telecommunications issues were dominating

Capital was scarce and when available, was channelled into telecommunications

Political and social issues took priority over commercial issues

Marketing initiatives and customer support were weak

The organisation was slow to respond to market pressures.

For all of the above reasons, service standards slipped and NZ Post's market share decreased. In view of this situation, the government separated the post from telecommunications and banking and corporatised all three. New Zealand Post is now a limited liability company, headed by a board of directors and owned by two ministries (The World Bank "Postal Record" 1997:18).

#### **4.1.2 DEREGULATION**

The NZ Post is operating in a deregulated market, with the Postal Services Act of 1998 removing NZ Post's monopoly on the standard letter, thereby becoming one of the few postal administrations in the world to allow full competition in postal services (Chalmers: 1999a). The government repealed the letter mail monopoly granted to New Zealand Post (NZ Post) by its corporate charter. Though still a state owned enterprise, since 1987 NZ Post has been run like a private company. The company raised prices and imposed higher delivery fees on rural residents. It closed more than 500 of the nation's 1,200 post offices (replacing them with private franchises with minimal services) and eliminated unprofitable offerings. The results were surging profits and praise from the country's business community-NZ Post was voted Company of the Year in 1994. The firm has welcomed the deregulation of the letter mail market, claiming it is ready to compete with anyone (The World Bank "Postal Record" 1997:20).

#### **4.1.3 LARGE MAILERS OVER PUBLIC**

Although NZ Post remorselessly slashed services to the public, it satisfied the large mailers it considers its core customers and has employed an aggressive public relations campaign to convince New Zealanders of its success. Thus, once a year it grants a 'free posting day' for personal letters. In 1995 NZ Post eliminated the rural delivery fee and cut the price of a first class stamp from 45 to 40 cents. Those moves hid the fact that postage rates had risen from 30 to 45 cents between 1987 and 1992 and that NZ Post began charging a premium for overnight delivery between the small country's two largest cities (Wellington and Auckland). The New Zealand Post has

been able to keep rates constant by cutting its costs. Nor does it reflect that NZ Post threatened to discontinue rural service unless the rural delivery fee was increased, which the government at first permitted. It was only after the rural fee became a political issue in national elections that NZ Post's government-owners decided to drop it (The World Bank "Postal record" 1997:9-11). Among other changes, managers have cut paperwork by 90%.

In mid 1987, the New Zealand government removed the monopolistic privileges of the New Zealand Post and surrendered all control of its actions and all stakes in its profits and losses. Though the New Zealand service is not completely privatised (the state still retains ownership of the corporation), its several years of operation demonstrate a much more pro-consumer approach than the SAPOL monopolistic system.

The New Zealand postal system has increased on time delivery of first class mail from 84% to 99%. It has increased the number of postal outlets by 17% by contracting out mail; services to retail stores, and by doing so, it has increased the number of hours and days of postal service availability. The NZ Post also dropped its monopoly over mailboxes. Merchants, utility companies, etc. may deliver their own mail or advertising to individual boxes. This too has freed up competition and service (The World Bank "Postal record" 1997: 15)

Ranganathan (1998:183) in his study, made the following observation about New Zealand Post:

#### **4.1.4 LEGAL TRANSFORMATION**

The New Zealand government created a legal framework, which supported its intention. The government developed "State-Owned Enterprises Act" (SOE), which specifically required state-owned enterprises to operate as successful businesses and to meet three criteria: to be a good employer, to be as profitable and efficient as comparable businesses that are not owned by the Crown; to be an organisation that exhibits a sense of social responsibility by having regard for the interests of the community in which it operates and by endeavouring to accommodate or encourage these when it

is able to do so. This new statutory framework was introduced for all state-owned enterprises to facilitate their improved economic performance and to enhance their accountability. The aim was to enable and encourage the boards of the enterprises to manage their businesses on a commercial basis, free from political control over day-to-day operations, while retaining ministerial powers to control the broad direction of corporate policies.

The New Zealand postal service operates within the legislative framework of (1) the State-Owned Enterprises Act; (2) the Postal Service Act; and (3) the Articles of Association of the New Zealand Post Limited. This legislation is described below:

The State-Owned Enterprises Act, which is the umbrella legislation for the establishment of several state-owned enterprises (SOEs), of which New Zealand Post Limited is one, spells out the nature of the government's ownership of the company, the broad business objective to be achieved, and the operation requirements. The act specifically requires that the Post:(1) be as profitable and efficient as comparable businesses in the private sector;(2) be a good employer; and (3) exhibit a sense of social responsibility to the extent possible. The Act defines the roles of directors and specifies the responsibility of shareholding ministers. By also outlining the reporting requirements for SOEs, the Act deliberately distances commercial management of the Post from political control. The Act explicitly stipulates that where an SOE undertakes non-commercial activities at the request of the Crown, the Crown will explicitly fund these services

The Postal Service Act is a brief legislation, which identifies the extent of the letter post monopoly and the postal obligations and also the international obligations that New Zealand Post must meet. The act also specifies that the Post must establish and maintain transparent accounting arrangements and an audit trail to clearly separate letter services subject to statutory protection from other activities. This is intended to prevent cross-subsidisation into other competitive areas.

The Articles of Association of New Zealand Post Limited are similar to those of a private company, set up under the provisions of the Companies Act. The Articles cover such matters as the issue of shares, procedures for meetings, voting rights of directors, and other corporate governance issues.

Ranganathan 1998:91 observed that New Zealand Post and the government agreed on a Deed of Understanding to formalise service obligations in exchange for a continued level of protection. The main features of the Deed are:

The universal letter service will be continued.

Existing delivery standards will be maintained.

The Post will be obliged to maintain a basic network of New Zealand Post agency outlets.

A price ceiling of CPI – 2 percent was imposed on the basic first class letter rate; after the ceiling was CPI – 1 percent.

#### **4.1.5 COST CONTROL**

- a) A major shift took place, away from company retail outlets to private sector agencies. In 1988, 432 companies owned postal outlets were closed and replaced with a network of private sector retail outlets. In 1991, more than 80 percent of the 1,400 outlets were privately owned, which significantly reduced fixed costs.
- b) By 1994 the work force was reduced by 40 percent. The need for change was widely communicated throughout the organisation and natural attrition and voluntary redundancy permitted a downsizing of the work force. Recurring no-personnel expenditure was reduced by 30 percent in the first year.
- c) Conveyance expenditure was reduced by 30 to 35 percent with the introduction of commercial price negotiation through selective

or open tendering. Inventory levels were reduced by more than 40 percent in the first year.

- d) Credit controls were tightened to ensure that receivables were repaid on time.

#### **4.1.6 PRODUCTIVITY IMPROVEMENT**

- a) Capital expenditure was redirected from providing retail outlets to modernising the mail processing network, replacing vehicles, and developing computer systems to replace costly manual processes.
- b) Significant staffing changes were implemented, including the employment of part-time staff for peak traffic hours.
- c) A concerted effort was made to rapidly cultivate a marketing and customer-driven outlook through the recruitment of sales and marketing professionals from the private sector.
- d) Mail processing centres were required to operate a no inventory policy, and, coupled with more attention to networking, this has led to consistent on-time delivery standards of 96 to 97 percent for all mail.
- e) In the retail area, although a major rationalisation of post offices was undertaken, growth opportunities were actively explored. Merchandising in Post shops has been developed as significant source of revenues.
- f) Track and trace computer systems were purchased from another postal administration and modified of the specific needs of New Zealand. This investment was targeted toward enabling the Post to compete in courier and parcel service.
- g) A program of counter automation was introduced to improve the response time to customer inquiries about mail and to achieve more rapid and accurate data entry. It would also make possible

the provision of an expanded range of agency services such as the motor vehicle registration service.

- h) Optical Character Readers were purchased to provide very high speed electronic sorting of machine-addressed mail down to individual postal delivery rounds.
- i) A mail containerisation program was implemented to maximise the volume of mail moved in protective containers capable of being handled by forklift. This was also meant to minimise damage in handling.
- j) Line haul services were extended across the country.
- k) Several innovation pricing schemes and new services were introduced to increase market share.
- l) An information System Strategy Plan was developed to provide a platform for direction and growth in the counter automation, track and trace, and customer management programs, and in upgrading the telephone systems. The aim is to develop and enhance the management information, recording, access, switching, and distribution systems of the Post.

Since its corporate transformation New Zealand Post has significantly upgraded the marketing of postal services. Under the Customer Care Program, an analysis of the Post's customer base targeted the (1,200) core customer that generated approximately 70 percent of the postal demand. The needs of these customers are regularly tracked and a special data file is maintained on each customer. Market research programs now determined customer perceptions of service, product areas. Postal products have been repositioned, and comprehensive internal and external promotional programs have been undertaken. Delivery performance is tested extensively and the results are advertised on a monthly basis in key newspapers. A Customer Management Program to handle inquiries and complaints has been established through dedicated centres in several cities, in order to decrease

customer inquiry response time and streamline billing procedures at all the Post facilities. Phantom shopper surveys are conducted to monitor staff attitudes to customers and staff knowledge of products and services. Quality assurance systems were being introduced throughout the company by a specialist unit assisted by consultants from IBM (NZ) Ltd. The emphasis is on identifying customer needs, setting standards to meet customer needs, and providing regular measurement and feedback of results to work groups.

New Zealand Post is seen as operating in the larger communications and retail transactions services markets. Therefore in addition to traditional letter mail and parcels, it is developing and marketing electronic mail services and a variety of agency services. New Zealand Post aims at being able to offer an array of services that will be able to meet all customer needs: the customer should have access to bulk-mailing facilities; expedited mail, high quality mail consultancy, direct mail lists, etc. New Zealand Post has introduced the following new services:

**Facilities Management Contracts:** For a fee, New Zealand Post employees would undertake the complete mailroom management for a firm, thereby freeing up overheads within the firm. This covers both internal mail processing and receipt and dispatch of mail and courier items.

**Financial Transaction Processing Service:** This process will service the entire billing needs of a company by utilising the retail, delivery, and mail network of the Post. Through a joint venture, the Post will prepare financial statement directly downloaded from a data link to a laser printer, will envelope the mail, and will transport and deliver it. In addition, the Post will receive and process payments, either through its retail outlets or by business reply post at a central processing centre.

**Ad Post:** In order to be able to capture the unaddressed advertising mail segment, the Post acquired a small circular delivery company to service this area.

#### **4.1.7 STAFFING AND HUMAN RESOURCES**

Ranganathan (1998:123), observed that New Zealand Post, since it has been corporatised in 1987, the many reforms that have taken place have included the following measures affecting the board, management and the employees.

**The Board:** The principal criterion for appointment to the board was a demonstrated competence in business in the private sector. Qualified, non-political, professional business people were selected to import the commercial disciplines lacking in the public sector. In terms of autonomy, the board is responsible for appointing senior management, setting prices, approving capital expenditure, raising finance within limits of the authorised debt/equity ratio, and determining the policies and priorities for the Post. The board provided a strategic direction and purpose to the organisation and monitors management performance. It is not involved in the routine management of the company.

**Management:** approximately half of the senior management team was appointed from outside the Post, to bring in the financial and marketing expertise. Management staff is contract employees and are paid on a performance basis. The salary level and rate of progression are determined by the ability to achieve established objectives.

**Employees:** all employees were removed from the public sector and are now contract employees. Their pay and employment conditions were aligned with private sector norms. The Post, in negotiation with the union, is responsible for setting wages and conditions of employment directly.

#### **4.1.8 FUTURE STRATEGIES**

With the restructuring behind it, NZ Post developed strategies for long-term success. The post would protect its core mail business by continuing to look for ways to lower cost, and by expanding in the direct marketing and bulk mail and mail processing business.

A second strategic component would be to build-both within New Zealand and overseas-on New Zealand Post's foundation of skills, knowledge and

experience through expansion in consulting services and joint ventures with other postal organisations.

Finally, NZ Post would protect the portion of market being eroded by electronics and support the efficiency of its core businesses, including retail financial transactions, through further development in electronic communications services. The post would transfer property management and development to a subsidiary company.

## **4.2 CASE STUDY-2: BRITISH POST OFFICE**

### **4.2.1 BACKGROUND**

The United Kingdom's Post Office is regarded as providing a superior service while being profitable at the same time, and is also considered an early and effective example of corporatisation and commercialisation. The British postal environment is undergoing significant change following the recent announcement by government to deregulate the postal market (Chalmers 1999a). This case study focuses on the successful transformation achieved within the freedoms and the constraints that the Post Office faces.

From its origins as a government department providing services based in local communities, the British Post Office has migrated, through a series of structural changes, to a changed customer base in the business community. The first driver for this migration was the government's decision in the early 1960s that the Post Office should introduce a form of profit and loss accounting. In 1969 the Post Office was established as a public corporation. The 1981 British Telecommunications Act led to the privatisation of the telecommunications business and the creation of a Post Office Board solely concerned with the affairs of the Letters, Parcels, and Counters Services and the Giro bank (opened in 1969). The Giro bank was structured and managed separately until its sale in 1989 (Ranganathan 1998:138).

The Post Office is required by legislation to meet all reasonable demands for letter services. It carries out other tasks which are not required by statute but

with which it is traditionally associated, such as the nationwide parcels service provided by Parcel force and the payment of social security benefits at post offices. Today the Post Office consists of three main business: Royal Mail and Parcel force are separate operating divisions of the Post Office, while Post Office Counters is a wholly owned subsidiary: Key facts on each of the three main Post Office businesses are given below.

Royal Mail represents some 70 percent (over 4 billion) of total Post Office turnover. It employs 165,000 people, most of whom are front-line postmen and post women providing a daily delivery service to 23.4 million addresses. They deal with more than 60 million items of mail a day collected from 100,000 street post boxes as well as from post offices and directly from many organisations. Royal mail has a statutory monopoly on letters delivered for less than 1(although the government is committed to reducing this figure).

The British Post Office (Royal Mail) has been continuously profitable for over 20 years. Its current structure, established in 1986, consists of a single board of directors to run three subsidiaries that deal with each other on a strictly commercial basis: Royal Mail for the processing and delivery of letters; Parcel force for packages; and Counters, the retail network serving the other two subsidiaries as well as private banks and government agencies. The Royal Mail's monopoly is limited to letters costing less than one British pound to deliver-while the other subsidiaries enjoy no monopoly status.

The Royal Mail is widely popular in Britain. It offers excellent service at affordable rate. Despite its popularity, the threat of total privatisation has hung over the British post office during the past decade, and the government has not hesitated to siphon off large portions of the Royal Mail's profits to fund other government functions. Only a vigorous campaign by the Communication Workers Union (CWU) prevented the privatisation of the British post office in the early 1990s.

## **4.2.2 SUPPORTING PROCESSES**

UK Post Office developed a process from Day One for dealing with queries and proposals via their business champions who in turn refer them to Legal Services if they are anything other than routine. More complex or urgent requests for guidance may be passed directly to the in-house Legal Services team who are generally able to provide a very quick response combining knowledge of the law with a good understanding of the Business.

Royal Mail has a Pricing and Regulatory Focus Group, which reviews all new pricing proposals and tests them for compliance with competition law and general commercial strategy (The World Bank "Postal record 1997).

## **4.2.3 REGULATORY BACKGROUND**

The UK Post Office is a statutory corporation and is still part of the public sector. It operates within a legislative framework (Post Office Act 1969 and British Telecommunications Act 1981), which, sets out its powers and duties and confers a limited exclusive privilege on it in recognition of its public service obligations. The basic regulatory provisions specific to the Post Office are set out in its legislation. It has a duty to meet the social and commercial needs of the United Kingdom for letter post services (Section 11(4) Post Office Act 1969), and must not discriminate unduly between different classes of customers (Section 67, 68, and 69 British Telecommunications Act 1981). Its exclusive privilege is quite limited; the Government may grant licenses permitting individuals or classes of individuals to provide services, which fall within the postal privilege. The existence of these powers to modify the exclusive privilege from time to time and the way in which the government has exercised them to indicate an approach, which is compatible with the general approach to monopolies adopted by the competition authorities (Crew 1997:196).

## **4.2.4 TRENDS IN MAIL VOLUMES**

At the heart of the Post Office's operations is the collection, sorting and delivery of letters. Royal Mail accounts for 80% of the turnover and 84% of

the profits of the Post Office and Royal Mail employs 86% of the staff of the Post Office.

Britain operates two classes of mail: First Class targeted for arrival the following day and Second Class targeted for arrival on day D+3. Over time, the shares of these services have varied: from 30%:70% in the mid-1970s to 50%:50% in the late 1980s to 36%:64% now (Darlington 1999a).

#### **4.2.5 INSTITUTIONAL ARRANGEMENT**

The Post Office took an important step in the transformation process in 1986, when it was divided into separate business units. Royal Mail operates three strategic business units: Royal Mail National - This unit looks after the needs of all residential customers and small business customers. Royal Mail Streamline - This unit concentrates on the needs of business customers who post large volumes of mail and who can benefit from the savings to be made by utilising the world's most sophisticated computer and postcode-based sorting system. Turnover is around £1 billion a year. Royal Mail International - This unit serves the needs of UK businesses and customers in relation to international mailing. Turnover is around £600m a year (Darlington 1999b). In other words, Royal Mail comprised three quarters of the new organisation, with Parcel force, Post Office Counters Ltd., and several smaller units making up the rest of the organisation. In 1990, Parcel force became a completely independent division, allowing it to focus on its unique function and to capitalise on its strengths, while being less encumbered by the regulations and procedures. That same year, the United Kingdom government privatised its banking services (Giro bank). The privatisation idea scared off too many members of Parliament (Dowson 1997:105).

#### **4.2.6 POST OFFICE COUNTERS**

In 1986 a new division of the Post Office called Post Office Counters was launched. This division offers travel-related services such as currency exchange, insurance policies and limited banking services. The network of post offices represents a partnership between the public and the private sectors. Post office Counters, the public sector core of the business, is at the

hub of this network, negotiating and coordinating the contracts with government bodies and other clients on which the network depends. Post Office Counters provides the infrastructure that supports the individual post offices and ensures that they provide services to a high standard, building on the reputation of the business for security and efficiency. Post Office Counters also directly runs some 800 of the larger post offices (known as "Crown" offices), although the Post Office has been converting these to agency to status in the interests of efficiency and customer service. The network of sub-post offices injects private sector involvement and capital into the business. The combined investment of the sub-postmasters in the post network has been estimated at more than R10 billion, which is well in excess of the public sector investment in the business. The transformation of the counter business followed the 1994-95 debate on privatisation. The present commercial freedom of Counters would never have happened without that debate. However, Post Office Counters has tried to extend the product range further but has been constrained by government unwilling to allow the business to take the commercial risk. The refusal to allow the business to develop a business line for potentially profitable product ranges such as airline and train bookings and theatre and concert ticket sales illustrates the lack of market autonomy the Post Office really has in its corporatised state (Ranganathan 1998:247).

#### **4.2.7 MAIL DELIVERY TEAMS**

The managers who run the British post offices are seeking to fundamentally change the way delivery work is organised. Royal Mail has aggressively advocated 'team working' as a way to boost the competitiveness of the business in the face of growing competition (both from privatised post offices such as Holland's KPN and from electronic alternatives to mail). Under this approach, letter carriers with contiguous routes would be grouped together, given collective responsibility for a geographic area and assigned a team leader (essentially a line manager) who would evaluate the performance of the team instead of individuals.

Although the CWU worked constructively to incorporate some of the ideas to improve the working conditions of its members without undermining the union, Royal Mail's managers insisted on conditions that the CWU could not accept. For example, Royal Mail wanted to abolish seniority for purposes of filling job vacancies, eliminate the principles of fair overtime allocation and implement performance standards on team members that did not allow for variations in physical capabilities, age or other factors. The CWU then staged a series of strikes in 1996 across the country. Although the strikes drove the government to temporarily suspend Royal Mail's monopoly, the public largely backed the workers and Royal Mail agreed to withdraw its 'team working' proposal in favour of a joint task force to study the issue (The World Bank. Postal Record. 1997).

#### **4.2.8 CUSTOMER CARE**

In early 1989 Royal Mail launched a program called Customer First, in which a promotion of external customer focus enabled it to identify new products and services as well as develop means to measure customer satisfaction from quantitative and qualitative standpoints. Crucial to a new emphasis on customer service is ensuring that both management and front-line staff are satisfied with their jobs. In fact, employee satisfaction was a critical element of Royal Mail's plans for business development (The World Bank. Postal Record. 1997).

#### **4.2.9 CONSULTATION**

Royal Mail set a strict timeline on its organisational transformation to allow little time for the uneasiness and uncertainty that often comes with change. From inception of the restructuring in late 1990s, less than two years were planned for the program to be in place and running throughout the United Kingdom. In that short space of time, Royal Mail set strict goals to measure its success. The key was an effort to emphasise the immediate benefits of restructuring to meet total quality.

Royal Mail's directors identified three crucial themes in the company's business development plan to ensure that the new Royal Mail would be

accepted and embraced by its employees. Those three foundations were teamwork, involvement, and empowerment. Before, during and after the installation of a business development plan, Royal Mail needed to involve a cross-section of all levels of the organisation in the decision making process. Again, the goal was to implement change swiftly and effectively. Royal Mail's employees were made fully aware of the direction of the company in which the business was heading. They all understood the tenets of total quality. Employee involvement in the early stages of the program also became an example for managers. They in turn involved their staff in a myriad of the business's activities, from corporate headquarters to the village post counter (Dowson 1997:113).

#### **4.2.10 REORGANISATION**

The directors abolished the traditional, levelled hierarchies of old-style business in the new corporate structure. Royal Mail's priority shifted to a team oriented strategy focused on employees who deal with customers on a daily, personal level. Management's role was no longer to decree policies from afar and enforce them among the lower ranks. Instead, middle and upper management's role was and is to listen to the needs of the front-line staff and react immediately to customer demands. Management and front-line staff remain united in their efforts to provide ever more efficient services (Dowson 1997:112).

#### **4.2.11 HUMAN RESOURCES**

Royal Mail introduced a variety of programs to prepare its people for change at the same time trying to emphasise that the status quo was not the way forward. The first program addressed the people and cultural issues. It focussed on training in leadership skills and the restructuring of remuneration and working practices. Management spent considerable time working with unions to improve relationships at all levels and the procedural framework governing the relationships. Like New Zealand Post, when it undertook some reform measures, Royal Mail reduced staff considerable as a way of saving costs (Dowson 1997:110).

Employee education followed. Royal Mail has implemented a package called 'Understanding the Business'. This was designed to raise awareness of key business drivers and the need for change. It has been delivered to all employees in small groups which is a major exercise in an organisation employing 150 000 people (Dowson 1997:109).

#### **4.2.12 POLITICAL CLIMATE**

The situation facing the Royal Mail changed dramatically with the results of British elections. While the Tory (conservative) government favoured deregulation and private ownership of Royal Mail, the Labour government opposes radical change. Instead, it favours granting Royal Mail even greater commercial freedom within the public sector. Among the ideas under consideration is the granting of Royal mail the rights to borrow funds without government approval enter into joint ventures with private companies and pursue its own collective bargaining goals. Currently, CWU is even prepared to back the kind of price cap regulation proposed by Royal Mail, provided royal Mail gets the sort of commercial freedoms described above. The new Labour government has halted the Tory practice of contracting out public post offices to private franchisees and has announced a review of postal policy that will produce proposed legislation (The World Bank "Postal record" 1997).

### **4.3 COMPARATIVE SUMMARY**

The relationships that have developed between governments and their new Postal Enterprises have been unique to each country's situations but the major issues facing any such relationship have been addressed in a similar fashion. The NZ Post story is one of the most successful examples of the transformation of a former governmental department into a commercial enterprise. While the transformation of the NZ Post was comparatively swift, it did not happen overnight. There was a level of statutory protection over letter delivery and it was only in 1998 that the postal market was fully deregulated.

New Zealand according to Chalmers, had been particularly proactive in liberalising and deregulating its previously government dominated industries, notably in the post, energy and telecommunications sectors. An important start for the reform of these utilities was the drafting of State-Owned Enterprise Act, published in 1986. The Act encompassed all of New Zealand's big parastatals. A key focus was to improve the performance of state enterprises by establishing performance and accountability procedures.

NZ Post's dramatic transformation over the past decade can be explained by three key factors: the environment created; the structure selected; and the leadership provided. First, the environment was designed to foster success. NZ Post was not only mandated to be commercial, it was given the tools and freedom to be commercial. The government granted NZ Post considerable freedom in such matters as pricing (other than the standard letter rate), marketing and personnel policies.

Second, a solid commercial structure was established. While the company was denied government guarantees to its borrowings and trading activities, a sound commercial structure was established following a yearlong assessment and valuation of properties and assets.

Third, a structure for providing leadership was established. The government appointed a commercial board of directors, consisting of leading accountants, lawyers, and entrepreneurs. Political affiliation was not a criterion for selection. New managers were recruited, and existing ones received additional training. These three factors have proven a winning combination as NZ Post has navigated a course to successful commercialisation and stands poised for the challenges of the future.

In New Zealand, electronic communication are actually fuelling the growth of mail services as goods such as books and even groceries are ordered by customers over the internet. The company has transformed itself from a loss-making government department, with a protected letters market, to a profitable business in a fully competitive environment. Unfortunately, the success of NZ Post was achieved largely on the backs of its employees. Not only did thousands of postal

employees lose their jobs but also the company attacked their union by exploiting the country's new labour law-the Employment Contracts Act (ECA) – order to replace full time workers with lower paid part-timers and individual's contractors. The ECA, which the International Labour Organisation (ILO) of the United Nations has called a violation of the international right to organise, devastated the New Zealand labour movement by permitting workers to opt for individual contracts in lieu of coverage by collective agreements. As a result of a management policy to divide and conquer, the NZ Post Office Union (NZPOU) eventually went bankrupt as its membership declined. The organised workforce at NZ Post, now represented by the New Zealand Engineering, Printing and Manufacturing Union, is still struggling to recover. The New Zealand Post and British post offices are among the world's most profitable postal administrations and are making solid headway in a market that becomes more competitive by the day (Chalmers: 1999a).

In the case of British Post mail volumes specifically, some basic points need to be made. Royal Mail produces its forecasts of future mail volumes principally by assessing the likely growth of what is known as GDP, which mostly correlate with the growth of inland letter traffic. This methodology is based on the knowledge that different sectors of the economy generate different amounts of mail. It is known that much more traffic originates from business and financial services than that sector contributes to the growth of the economy as a whole. Other factors besides GDP are known to be important in influencing letter mail growth, notably growth in household numbers and less certainly marketing & sales activity and new products & services.

In the past, those factors that have proved most reliable in terms of predicting mail volumes - the performance of the national economy and growth in the number of households - have been exogenous variables, outside the control of the Post Office. It seems likely that, in the future, a number of endogenous factors - notably the level and structure of pricing, quality of service, diversification into new products, and marketing effort - will have a growing influence on letter volumes handled by the Post Office and all of these factors

are (subject to some political restrictions) under the direct control of Royal Mail (Darlington 1999b).

There is not a straightforward substitution process between conventional mail and other forms of communication. So far the growth of telephone calls has not led to an absolute decline in the number of letters posted; often a fax is followed by a letter of confirmation; and many e-mail communications are of a short, informal nature that would not be sent by letter.

Since some 80% of letters are generated electronically by word processors or computers, there is considerable scope for an increasing volume of mail to be sent electronically or to become a hybrid form of communication. A major challenge for the Post Office will be to develop electronic and hybrid systems and services (Darlington 1999a).

#### **4.4 CONCLUSION**

The British Post Office has achieved a great deal through its early enterprise reform. It is one of the leading postal administrations in terms of service performance. Nevertheless, for the post office to respond effectively to changing market needs and industry dynamics, controls placed by the government need to be eliminated. This is one of the problems that postal services face today-as the commercial segment of the postal business becomes overwhelmingly dominate; the usefulness of government ownership and control is questionable. Underlying Royal Mail's plans for development was the understanding that while changes-improvements in efficiency and effectiveness changes in rules and regulations, and increasing emphasis on customer service-were attainable. The benefits of these changes would not have been fully realised unless Royal Mail also made major shifts in the attitudes and values of the organisation. Employees themselves had to embark on an ambitious change.

In conclusion, the case of the British Post Office is a good example of the limitations of corporatisation and commercialisation. Beyond such enterprise reform, it is almost imperative to introduce institutional and regulatory reform

if the competitive posture of the postal service is to be maintained. It should be borne in mind that the British Post Office is under state-ownership, and the government ensures that a state-owned service does not abuse its exclusive privilege by imposing a tight financial and legislative control on such state owned services. This in turn limits the Post Office's ability to operate along commercial lines and to respond to market dynamics effectively. It is evident, then, from the U.K. example, that if a postal service is concerned with assuring greater commercial freedom, it must first design the appropriate institutional and regulatory approach.

Overall one could venture the conclusion that, taking all factors into account, current Post Office forecasts of letter growth look optimistic and are by no means certain. Royal Mail may maintain and even improve current mail volumes - at least for a few more years - but it will have to work very hard to achieve this by being much more customer-focused and developing new services.

Lastly, this chapter highlighted the major strategies that were adopted by the two case studies. The experiences of the two postal administrations discussed above are not that to one another. The process followed in restructuring those entities were explored and the background that led to the course of action were looked into. The next chapter seeks to explain the process followed here in South Africa in restructuring the SAPOL. The strategies that were used will be explored briefly and the rationale for undergoing that exercise will be discussed. The lessons learnt in the restructuring process will be explored.

# **CHAPTER 5: THE STRATEGIC MANAGEMENT CONTRACTS OF SAPOL**

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## **5.1 INTRODUCTION**

The previous chapter showed how postal reform was implemented internationally particularly in New Zealand and in the United Kingdom. The criteria or lessons learnt from these experiences will be used to measure the progress made in South Africa. This section also identifies reasons why SAPOL was restructured and the problems encountered in the restructuring process. As a part of this work, efforts are being made to identify the objectives of restructuring the SAPOL in relation to its specific market situation. The South African postal market had hereafter been reviewed from a number of aspects especially with regard to the scope of its business.

First, the approach used in this chapter is first to give a brief background about the restructuring process, the main objectives of the restructuring exercise and indicate who the role players are. Second, all the different phases that were undertaken in the transaction are then explained and who were the participants and the outcome of the process from the first stage up to the last stage. Third, the tender process is then discussed in detail. Lastly, it will be the benefits of introducing the SMP and the lessons learnt.

## **5.2 ROLE OF PRICE WATERHOUSE**

The role of Price Waterhouse was a very significant one. The management consultant worked closely with the Department of Communications, and the Post Office transformation team. From the strategic options provided by the Ministry and the Department of Communications, the Price Waterhouse played a very crucial role by assisting the parties to develop and co-ordinate the appointment of a suitable Postal Administration and finally concluded a strategic management partnership. It advised the Minister for Post, Telecommunications and Broadcasting (the Minister) as the shareholder representative of the Government of RSA in the Postal Company, incorporated as contemplated in Section 3 (1) of the Post Office Act 44, of 1958 as amended, and registered under the Companies Act, 1973, regarding the obligations as shareholder; which includes

but not limited to compliance with the Companies Act, 1973, the Public Sector Corporate Governance Protocol, the office Company and amendment of the same. It advised the Minister on the restructuring of the SAPOL and the various methods of restructuring, which include but not limited to corporatisation and involvement of SMP's. It also advised on the constitutional implications of restructuring options/strategies towards economic empowerment of historically disadvantaged South Africans. These included several components namely: Procurement and tendering programmes, Small, Medium, and Micro enterprise promotion, entrepreneurial promotion, target setting and monitoring and evaluation. Executed the necessary preparatory work for the implementation of a competitive bidding process (Department of Communications, Terms of Reference, 1997). On the restructuring process, Price Waterhouse undertook the following responsibilities:

- Preparation of information memorandum;
- Establishment or the appointment of a Postal Administration;
- Preparation of data room;
- Structure of the tender process;
- Terms of the competitive tender required to secure agreed options and on the methodology for the evaluation of bids;
- Advise on the appointment of a legal consultant;
- Supervise potential contractors in carrying out due diligence on the Post Office
- Compile and draw up short, medium and long term goals of the partnership;
- Develop appropriate indicators for short and long term efficiency for the Post Office;
- Establish appropriate institutionalised accountability and reporting system between the Shareholder and the Strategic Management Partner;
- Develop appropriate incentive and penalty system for the partnership;
- Management of relations with prospective partners; and

- Develop a monitoring and evaluation system with agreed upon reporting formats between Department and Strategic Management Partner.

### **5.3 GOVERNMENT'S OBJECTIVES**

The White Paper on Postal Policy released in May 1998 has established key policy objectives which underpin the reform of the postal sector, namely to achieve:

- Development of South Africa as regional hub;
- Establishment of a strategic alliance with one or more leading postal administrations.
- Introduce new products and improve quality of service by the Post Office;
- Technology and new services development;
- Elimination of subsidy by 31 March 2001 and achieve profitability thereafter;
- Expansion of addresses and retail infrastructure;
- Human resource development; and
- Black economic empowerment within the Post Office.

Associated objectives for the reform of the postal sector include:

- Management skills
- Technological skills
- Provision of training.

### **5.4 OBJECTIVES OF THE SMP PROCESS**

Prior to and since corporatisation of the Post Office in 1991, significant inefficiencies and service problems have resulted in poor financial performance and low public satisfaction (PriceWaterhouse 1997:58). Furthermore, the policies of previous South African Government have created significant inequalities in both employment within the Post Office and access to postal

services in black communities and rural areas. The Post Office therefore faces the challenge of meeting its Universal Service Obligation (“USO”) whilst providing efficient and affordable services.

It was the government’s intention to reform and develop postal services in South Africa. The Department of Communications’ (“DoC”) chosen route to achieve this change was by introducing a Strategic Management Partner (“SMP”) to address the inefficiencies of the postal company as outlined in the FuturePost report. The decision to employ the SMP was also aimed at improving both the operational performance and financial position of the Post Office. The reform initiative undertaken by the Government and the Post Office Board had three key aspects to it:

- Project FuturePost: This was a report commissioned from Price Waterhouse and Ebony Financial Services by the Ministry of Post, Telecommunications and Broadcasting and the Post Office on options for restructuring the Post Office and was completed in July 1997. The report found a compelling case for change in the Post Office and proposed a number of operational and strategic options for consideration by the Government and the Board.
- The Minister of Post, Telecommunications and Broadcasting in July 1997 released a Green Paper for Public Discussion on Postal Policy. The Green Paper posed a wide range of questions regarding all aspects of postal policy. Responses to the paper assisted the Government in formulating the postal policy for the future.
- The Minister released a White Paper on Postal Policy in May 1998. The White Paper established the policy objectives and principles for the restructuring and reorganisation of the postal sector. The White Paper has formed the basis for a new Postal Services Act of 1998.

Some of the more significant operational findings of the FuturePost report are as follows:

- Mail volumes are in decline as customers move mail away from the Post Office;
- Some markets are under serviced;
- Operational transformation has not realised the intended benefits;

- If counters are considered the core business, an effective point of sale system is required;
- There has been limited commitment to diversity and training;
- Internal management control needs to be improved;
- Organisation structure is a barrier to a high performing organisation;
- Change is imperative to avert continued financial losses; and
- The case for major change is compelling.

Key aspects of the SMP's role are summarised below:

- The intention was to form a strategic alliance with a leading international postal administration or group that includes a postal administration to the mutual benefit of both parties for a contracted period of three years.
- The parties are also expected to provide the managerial and training skills and technology required to revitalise the Post Office and to place the Post Office in the global market place.
- Position the Post Office for a profitable long-term future (PriceWaterhouse 1999:21).

## **5.5 RESULTS OF THE MARKET TESTING**

In order to achieve the policy objectives summarised above as also outlined in the White Paper, the Department of Communications (DoC) proposed that the South African Post Office should enter into a contract with a SMP for an initial period of three years. That required the provision of experienced personnel, technology and resources. This section sets out the various steps taken by the Department of Communications ("DoC") for selecting a Strategic Management Partner ("SMP") for the South African Post Office ("SAPO"), in light of the responses received from approaches made to potential SMP's and subsequent discussions with them. It also provides a short summary of the market testing phase, and recommendations for defining the SMP process (DoC January 1999.

At the outset of the SMP process, a list of nine postal administrations with the necessary attributes and experience to meet these objectives and provide the necessary skills transfer was drawn up and agreed with the DoC. Letters were sent to all nine administrations, and subsequent meetings to test the nature and extent of their interest were then held with some of them (DoC January 1999).

**TABLE 5.1: RESULTS OF THE MARKET TEST**

<b>Expression of interest received</b>	<b>Declined</b>	<b>No response</b>
Canada	Australia	France
Germany	The Netherlands	
New Zealand	Sweden	
USPS	United Kingdom	

Source: PriceWaterhouseCoopers: 1998:4

Meetings were held in late June and early July with the postal administrations for Canada, Germany, New Zealand and USPS to assess their interest, to obtain feedback on the proposed process and to provide an opportunity for them to highlight potential issues/areas of concern.

**Notes:**

1. USPS as a non-profit making organisation advised that it is unable to enter into profit making contracts overseas.
2. The Netherlands and Sweden declined to become full management partners but indicated a willingness to provide personnel resources.

## **5.5 OPTIONS FOR THE SMP**

To continue with the SMP process, various options were made available to the DoC by PriceWaterhouseCoopers.

### **5.5.1 OPTION 1**

To enter into a competitive tendering process for the SMP role with Canada, France, Germany, New Zealand and Possibly USPS and reach an agreement with one or a combination of the postal administration. A critical feature for option 1 was to develop a comprehensive business plan for the South African Post Office prior to entering into negotiations with potential SMP's. The business plan would assist in evaluating in depth how the objectives will be met, and therefore to determine the specific requirements from the prospective SMP's.

### **5.5.2 OPTION 2**

To invite the prospective SMP's to undertake limited due diligence and to submit initial outline proposals to improve performance at the post office along with their capabilities. The preferred SMP would be invited to develop a turnaround plan in conjunction with SAPO and the Department of Communications.

It was recommended that option 1, was the most appropriate one and viable for the process.

### **5.5.3 DECISION ON A VIABLE STRUCTURE**

To move ahead, option 1 was adopted as stated. It was agreed that a competitive tender process would follow, taking into account the following, the inclusion of non-postal sector bidders such as Facility Management organisations and courier companies either in partnership with an existing interested party or as a separate bidder for certain aspects of the SMP role.

## **5.6 STRATEGY FOR THE TENDER PROCESS**

The restructuring of the SAPOL occurred within the framework of the NFA on the restructuring of State Owned Assets. Potential forms of management contracts that government considered for its restructuring process were Performance Management Contracts and/or Strategic Management Partnerships (SMP's). Consequently, the DoC decided to initiate a process that led to a SMP with a

private company or another international postal administration or a Consortium including an international postal administration. The SMP was selected through a transparent and competitive bidding process.

The DoC invited the applications for the role of the Legal Advisor for further develop, co-ordinate and implement the concept of SMP, in conjunction with a Technical Task Team chaired by the Director-General or his nominee from the DoC. The process followed after the release of the report was to prepare the Postal Strategy for the restructuring of the Post Office. The strategy was then presented to HSBC and the Board of the Post Office in January 1998. Strategic Management Partner strategy for the Post Office was then presented to IMCC in February 1998. The drafting and verification of Information Memorandum was completed in December 1998. The request for final proposal was issued in March 1999. The completion of the SMP process and the Post as the Strategic Management Partner was officially appointed as from the 1 October 1999 (DoC. "Report to IMCC. 1999).

The Post Office committed itself in ensuring that the entire restructuring process including the tendering process was a success. It had done that by demonstrating control over the flow of information to bidders, ensured a transparent process and level the playing field for bidders. An Information Memorandum was developed by PriceWaterhouseCoopers to ensure that the bidders have a similar level of understanding of the business. The Information Memorandum was used to serve as a marketing document for the Department of Communications and to describe the business, the market, the operating environment as well as outlining the process and bidding requirements.

### **5.6.1 KEY STEPS OF THE TENDERING PROCESS**

The development of the SMP process included the following:

- a) Finalisation of the business plan.
- b) Drafting of Information Memorandum.
- c) Verification, signing off and printing of the Information Memorandum.

### **5.6.2 IMPLEMENTATION - STAGE1**

- a) Issue Information Memorandum and business plan
- b) Receive responses to Information Memorandum and business plan
- c) Visits to France, Germany and New Zealand were conducted to view the operations.

### **5.6.3 IMPLEMENTATION - STAGE 2**

- a) Request for proposals to short listed bidders
- b) Selected preferred SMP
- c) Sign contract.

## **5.7 THE TENDER PROCESS**

An Information Memorandum was issued to four Candidates interested in participating in the Strategic Management Partnership with the Post (DoC. Report to IMCC. 1999). Those Candidates were:

- Canada Post
- Deutsche Post
- La Poste (France)
- New Zealand Post/Royal Mail.

Candidates were invited to submit Indicative Proposals for Operational, Technical, Human Resources and Financial Proposals as to how they would address the Government's objectives. Those proposals were based on the information contained in the Information Memorandum and in the Data Room.

With respect to the Financial Proposals, Candidates were invited to submit Indicative non-binding Proposals for the "structure and amounts of remuneration based on all its proposals, including its proposals for an appropriate incentive and penalty regime."

Cabinet approved the invitation to all four and they were then invited to submit their final proposals.

## **5.8 THE FINAL PROPOSALS**

All four, namely La Poste (France), Deutsche Post (Germany), Canada Post International Limited (CPIL) and New Zealand Post International Limited (NZPIL) with British Post as a subcontractor, submitted final bids. An evaluation committee comprised of representatives from the Department of Communications, the board of directors of the Post Office, management, the trade unions and the transaction advisers PriceWaterhouseCoopers and Ebony Financial Services, evaluated the final bids against four criteria, ranked in the following order of importance:

- a) Extent to which candidates' proposals would achieve the technical requirements for the SMP objectives outlined above and demonstrate innovative solutions;
- b) Value for money offered by the candidates' financial proposals and the extent to which these are self financing and supported by incentivised fee arrangements based on the achievement of specific performance targets;
- c) The experience of the specific individuals that the candidate intends to make available and their ability to communicate in English; and
- d) Candidates' proposals for managing and developing the working relationship with the Post Office and the extent to which the candidate is perceived to be able to work well in partnership with the Post Office (PriceWaterhouse February 1998a).

The Department of Communications presented a memorandum to Cabinet on 26 May 1999 on the evaluation process of four final proposals for the selection of the SMP for the Post Office. In that memorandum it advised that the evaluation committee had awarded NZPIL 147 points, CPIL 86 points, Deutsche Post 84

points and La Poste 44 points (Department of Communications, Report to IMCC. 1999). Cabinet approved the selection of CPIL and NZPIL as short-listed bidders for the SMP contract.

Detailed letters raising the issues for clarification arising out of the evaluation process were sent to NZPIL and CPIL. Their responses to these letters were subsequently clarified further during the course of visits to New Zealand and Canada by representatives from the Department of Communications, Post Office management, trade unions and advisers (DoC. Report to IMCC.1999).

## 5.9 FINANCIAL IMPLICATIONS AND ANALYSIS

There were no direct financial implications to Government. In relation to the Post Office, the financial implications of the two short listed proposals over the three-year contract are as follows:

**TABLE 5.2: FINANCIAL IMPLICATIONS**

Details	NZPIL	CPIL
Rands	R million	R million
Fees and expenses payable in rand	185	211.5
Value added per Final Proposal	401	0.5

Source: (Department of Communications January 1999:2)

The Indicative Proposals received have estimated costs for the SMP contract ranging from US \$6 million to US \$ 24 million to US\$ 39-42 million. The estimate of US \$39-42 million includes fees for full and part-time personnel from the SMP and all expenses for SMP personnel in South Africa. The fee component provides for 12 full-time senior level executives for three years, which is considerably more than the other proposals from bidders indicate. The fee does not include any operational or capital costs associated with specific projects (including application software, licence fees etc.) or any costs for additional local resources for specific projects proposed by the bidder in question. It was the intention of the DoC to link a high proportion of the fee to the achievement of

specific performance targets, which demonstrated incremental operational efficiencies, thus ensuring proper incentivisation of the SMP and value for money for their services (DoC. Report to IMCC. 1999).

## **5.10 APPOINTMENT OF THE STRATEGIC MANAGEMENT PARTNER**

Government announced that New Zealand Post International and British Postal Consultancy Service, a division of the British Post Office, were the preferred bidders for a strategic management contract. The two partners have pledged to turn around the loss-making Post Office's financial and operating performance, ensuring that it breaks even in the coming years and weaning it off subsidies (Chalmers: 1999a). The SMP agreed to provide consultancy services by the consulting Personnel on an *ad hoc* basis to the extent that the Post Office considers it necessary in its sole and absolute discretion.

## **5.11 PARTICIPATION IN MANAGEMENT**

The transitional executives and other seconded personnel undertook functions and services as transitional directors and/or managers. A team of 12 British and New Zealand postal consultants are permanently based in SA. They work closely with SA Post Office managers, who will be trained to take over key roles within the restructured organisation. New Zealand Post also imported 78 of its executives to the South African Post Office (Chalmers: 1999a).

## **5.12 BENEFITS OF INTRODUCING THE SMP**

The average subsidy for each of the years ended 31 March 1996 to 1998 was R560 million (approximately US\$ 90 million). The profile of this subsidy is set out below:

**TABLE 5.3: SUBSIDY PROFILE**

Year Ended 31 March	Total receivable (per Profit and Loss Account) Rm.
1996 (Audited)	572
1997 (Audited)	605
1998 (Un audited)	507
1999 (Projected)	440

Source: SAPOL business plan for 1999/2000

Through the contract, the SMP is incentivised to improve the financial performance of the Post Office such that it is positioned to continue on a profitable basis after the completion of the contract. The SMP promised to assist with the development of new initiatives and/or products such as e-commerce, to expand and develop the Post Office's business, which will contribute to subsidy elimination.

The Post Office's 1999/2000-business plan assumes 0% volume growth for the year ending 31 March 2000 and 2% growth in the second and third years. Growth in the first year is therefore only from tariff increases. The above table demonstrates the need, which had already been recognised, to ensure that the SMP is self-financing. The intention was to structure the incentive/penalty regime in a way that ensured that the SMP did not become a net cost to the Post Office.

### **5.13 ANALYSIS OF THE SMP**

The risks on this SMP initiative are the overall control that the SMP management will have on the running of the organisation. A clear strategy was not clearly defined, exactly as to how will the parties manage and share the risks. In this case, accountability for failure to meet the targets and other obligations lies with the SMP. Failure to deliver on the aspects of the agreement will result in the levying of penalties on the SMP. This situation will lead to a witch-hunt by certain individuals in the Post Office management wanting to position themselves in good books of the Board of Directors. Experience shows that in such instances,

there is a tendency to shift all the blame to the other party, resulting in both parties becoming defensive.

There is a risk that, the Post Office might lose control of the partnership on the project. The lack of necessary expertise in the Post Office makes the company to be at the mercy of the consultants in defining the specifications. The core areas of expertise are with the SMP, and this poses a problem in the transfer of strategic skills as expected. The first year of the contract is already over and the Post Office management has not yet identified individuals who are supposed to understudy the SMP officials. This is an indication that the SAPOL management is not commitment and does not share the same vision of the shareholder who is the initiator of the entire process. That can also be translated by saying that the management of the Post Office lacks the strategic guiding principles, which is supposed to inform the vision and the overall objectives of the Post Office.

Lastly, given that the SMP is a short-term solution to the problems of the Post Office, and that full operating risk would not be transferred to the SMP, there are also risks that the subsidy may have to be brought back again after the SMP tenure is over. The question is who is going to make the business sustainable and remain profitable if the SMP fails to transfer skills to the existing staff who are going to run the business after the three year period of the SMP?

## **CHAPTER 6: CONCLUSION**

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## 6.1 INTRODUCTION

"We have not succeeded in answering all our questions. Indeed, we sometimes feel we have not completely answered any of them. The answers we have found only serve to raise a whole new set of questions. In some ways we feel we are as confused as ever. But we think we are confused on a higher level and about more important things."

Anonymous

In the past, the performance record of state owned enterprises has been poor. Developing countries attempted to expand role of their public sectors, but this led to an impedance of economic growth. Growth of the public sector in the capitalist world is considerable. The common denominator of this effect, namely an extensive public sector, is the recognition that the expansion of the state's economic role in many countries has been unacceptably high and resulted in pressures on taxes and a negative impact on the economy as a whole.

There is ample evidence that any enterprise, public or private, operates more efficiently when faced with a competitive market. Since state owned entities tend to be large in relation to the local market, the opportunities for domestic competition may be limited, especially in smaller economies.

Against this background the need arose to improve the efficiency and effectiveness of the South African Post Office and to start with perpetual reform and improvement in the provision of services. A means to achieve this was done by commercialisation of the company in 1991 through a process of postal reform up to the stage where the government introduced the Strategic Management Partner for the period of three years started from 1999-2002.

This chapter aims to draw the thesis together into the summary findings, recommendations and conclusions.

## 6.2 HIGHLIGHTS OF THE STUDY

The study has highlighted some factors, which are worth raising due to their interest to the field under consideration. These are listed as follows:

Legal Reform- the separation of Post and Telkom in 1991

Regulatory framework- the establishment of an independent regulator for the postal sector

Postal policy process- the development of policy guidelines for the entire postal sector

The improvement of quality of service

The extension of addresses and retail network

The introduction of technology and other new service developments

The introduction of the SMP

### 6.3.1 COMPLIANCE WITH THE RESEARCH QUESTIONS

The purpose of the study, according to the grand tour question is to understand the reasons why government decided to restructure the SAPOL. This question along with its sub-questions is addressed in detail in chapter 3-4. The threats and opportunities facing SAPOL are also addressed.

## 6.4 ASSESSMENT OF THE APPROACHES

The steps taken in restructuring the SAPOL from the commercialisation seems to be the trend internationally. As mentioned earlier in the study, when government planned the restructuring of the enterprise, a postal policy document was developed. The policy document outlined the vision of government with respect to the restructuring of the SAPOL and all the options for restructuring were then presented. The approach taken in restructuring the SAPOL is not unique in

South Africa and also the fact government was the driver is what Ranganathan advised the governments. His view was that governments should take charge of the reform program since a comprehensive program includes legal, regulatory, and institutional reform components, the management of change has to come from the government, not from the post office.

## **6.5 CHALLENGES AND CONSTRAINTS**

Throughout the world, pressure is mounting from the private sector, advocating for the liberalisation of the market in almost all the sector and postal sector is not an exception. As a result, the license issued to the Post Office states that the monopoly would be reviewed every three years. Since the monopoly scope of the Post Office is planned to be decreased in the near future, the challenge facing the Post Office is to establish itself as high quality service provider and reposition itself to succeed in a competitive environment. The institutional arrangements need to be evaluated on the basis of their ability to:

Increase market share rapidly in non-reserved services

Diversify and develop products and services to capture untapped market segments

Fortify position in core business

Provide consistently high quality of service

One of the constraints that face the SAPOL is the lack of skills in certain areas of business. Some of the skills were highlighted in the FuturePost, the study that was undertaken by PriceWaterhouse on behalf of government. One of the requirements of the SMP was to transfer skills to the Post Office employees. The first year is over and nothing has happened so far with respect to the transfer of skills. That problem if it is not being addressed as soon as possible, it might have spill over effects on the business after the SMP tenure is over. There won't be people who will make the business sustainable.

## 6.6 SYNTHESIS

The findings of the study do not support the claim that private ownership per se is necessary for improving efficiency. Private ownership matters primarily because of the unlikelihood that government corporatise or commercialise SOEs and or maintain an arm's length relationship with them. Even if the enterprise is not privatised, it can still operate efficiently and effectively, as is the case with New Zealand Post and Royal Mail. However, the role of government is to initiate the reform process and set policies that will facilitate the restructuring exercise.

With the introduction of the SMP in the South African Post Office, the profit margin is improving. The SMP still adheres to their promise that the SAPOL will break-even by March 2001. In other words, without selling the stake, the enterprise can still be run profitably.

## 6.8 LIMITATIONS

The researcher draws attention to two major limitations in this study. The absence of established systems of data collection by government agencies and writings precluded rigorous empirical work. The empirical work on SAPOL restructuring in SA has been constrained by the lack of information about the postal sector in general and firm-level data. The scarce resource material has been a problem and this can be viewed as both a problem and a challenge. This shows that the postal sector has been ignored both by the researchers and academics. This experience is not just unique in South Africa, even in other countries; the postal sector has been neglected. It is only during the late 20<sup>th</sup> century that it has attracted many scholars, academics and consultants.

The fact that the postal sector has been operating poorly could also be attributed to this fact. It did not receive much attention like the other sectors in the media even though its performance is well known and there were no debates about the future strategies or plan even though it renders the public's service.

## 6.9 LESSONS OF EXPERIENCE: GENERAL CONCLUSION

Enterprise reform in poorly performing enterprises requires structural changes prior to implementing performance improvement programs. Given that the main reason for poor performance of enterprises is due to the poor quality and poor performance of the management, maintaining the status quo in organisational arrangement and structure does not typically change performance even if tighter out-put driven controls are placed on the management. The organisational culture that need to be imposed throughout the organisation for performance improvement requires a structural change, not a mere performance control mechanisms to the same set of middle and senior managers.

Countries examined for this study have implemented independent programs. Although these efforts lead to some improvement in those particular functions, very little global benefit in the overall postal service is realised. This is one of the primary reasons why several countries have spent a significant amount of resources on improving the postal service and yet have failed to improve the service at the customer end.

*Full operating risk need to be passed on to the enterprise.* The most effective institutional arrangement for good performance is one that involves the transfer of full operating risk to the operator. In broad terms, this means that the operator should take on full responsibility for enterprise profitability, sectoral developmental objectives as demanded by the government and all obligations, with no guarantee from the government for any cover for financial losses.

Commercial principles and practices, as found in the private sector, are more easily realisable when private sector is involved in the financing and management of postal operations. Converting the existing organisation, together with its existing management philosophies, practices and culture, on a new direction through limited new placements and management controls, takes a long time. If changes are to be realised urgently, and private sector type management principles need to be brought in effectively and quickly, then partnership with the private sector for the financing and/or management of postal

operations becomes more attractive, especially if a significant portion of the operating risk is passed on to the private sector partner.

*Speed of transformation becomes critical if the enterprise is heavily subsidised.* Typically, there is little time to reform the postal service to acceptable performance if the incumbent is being subsidised heavily by the government. This is mainly for the following reason. Due to poor financial performance, the postal service is typically under-invested. In order to turn around the performance of the postal service, relatively large amount of investments are required. If a slow approach to reform is taken, the enterprise will remain cash constrained, and will remain under-invested, thus unable to bring about the magnitude of performance improvements. This, in turn, may lead to deterioration in market position, and thus profitability.

The study has clearly indicated that a postal reform was a necessity in South Africa but it must be acknowledged that the restructuring is not an event but a process. While the postal reform may raise unduly high expectations particularly from the certain segments of the industry, careful considerations should be given to policy and strategy development so as to what can be achieved and expected. This study, through the insights gained, indicates that the relevance of postal reform in South Africa is greater given the country experiences as discussed.

However, it is still premature to say the restructuring of Post Office in SA has brought some fruits. Even though some benefits can clearly be outlined especially from the SMP exercise. For government, it will cease to subsidise the SAPOL as from 1<sup>st</sup> April 2001. For business community, they have expressed satisfaction in the level of service they are receiving since the introduction of the SMP. The quality of service is generally improving since the SMP started operating locally. At the end of this study, it can be concluded that the approach used in employing the SMP was an effective approach and so far it delivers satisfactorily results.

The outside world has historically shown interest in the postal sector and that evident and noticed during the SMP transaction. However, there is a limit to the

amount of resources available domestically in the postal industry, which leaves South Africa with only two choices:

Accept the limitations in available funds

Open up the market to foreign investors

The researcher has found that there is little research being done in the postal sector. The present information available and research conducted originates in already developed countries that share a broad common value system. Research is needed to identify factors that would make postal services more competitive given the challenges posed by the technology.

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