

Privatization and social responsibility

A critical evaluation of economic performance

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Abstract *Provides synthesis and critical evaluation of the results of existing research in privatization utilizing an interstitial review and comparative analysis of relevant factors of economic and social performance. Based on the results of this analysis, it appears that the economic benefits of privatization activities promoted to date are not public and private sector managers, are in the worst of the best, while the social benefits are often mixed and uneven. Moreover, it seems that the role of privatization is not a means of reforming the public sector but a means of interstitial review in scope and depth such that in many cases, the importance of objective and balanced measures of its overall effectiveness and impact on the affected communities need to be reexamined. Recommends that these responsibilities for planning of future privatization activities should reflect the present economic emphasis and strive for balance of economic and social performance to improve long-term benefits for all sectors of the affected communities.*

Introduction

Privatization is one of the most critical and politically sensitive government activities. It has led to fundamental shifts in the relationship between the private and public sectors in many jurisdictions. The role and scope of privatization have increased dramatically in the last ten years both in the form of contracting out of public services and in the outright purchase of government enterprises by the private sector on the national and international levels. The overwhelming concern for the increasing globalization of privatization activities tends to focus narrowly on economic factors for success at the expense of social justice for those most affected. These privatization activities often are characterized by short-term economic gains by private sector interest groups without long-term consideration for the least articulate and most vulnerable groups of the affected public sector agencies and community. Moreover, commonly accepted trade-offs that occur throughout the privatization process typically create an imbalance of accrued benefits to various segments of the workforce and members of the community, in general.

The purpose of this paper is to add to the body of knowledge and understanding of privatization, with the focus on balancing social and economic performance for the affected organizations and communities. More specifically, supported by a database of worldwide, regional, and country studies from 1991-2000, it is proposed:

- that privatization has negative as well as positive consequences;
- that the negative consequences are often masked or go undetected because the effectiveness of privatization is based primarily on economic performance; and
- that to obtain a more accurate and realistic determination of the effectiveness of privatization, measures of economic as well as social performance should be considered.

Typically, indicators of the success of privatization activities are based primarily on economic performance emphasizing financial outcomes. As shown in Table I, a 15-country comparative study conducted in the fall of 1999 by the Organization of Economic Cooperation and Development (OECD) used commonly accepted success indicators for the privatization of state owned enterprises (SOE) in the 15 countries (Megginson and Bouchkoua, 1999).

As Table I shows, all success indicators resulted in “significant improvement” except employment which was “mixed”. It should be noted that the authors of the study did state in relationship to the general reductions in the workforce that there was “little evidence of mass layoffs” (Megginson and Bouchkoua, 1999). The overall conclusion of the authors of the study is that privatization has been the most important innovation in corporate finance, outside the US, during the last half of the 20th century.

Tracking the impact of privatization and private fixed investment in developing countries from 1970-1995, the International Finance Corporation’s eighth annual worldwide statistical survey, found that private investment in developing countries continued its ten-year upward trend in economic development in 1995. However, this study concluded that favorable overall performance of private investment continues to mask wide disparities in investment performance across regions (Bouton and Sumlinski, 1997).

Privatization activities, which emphasize the internal corporate financial performance and overall economic performance, often do so at the expense of internal human factors and external social factors. An on-going research worldwide project by the World Bank tracked the progress of economic growth in the developing world from 1991 to the year 2000. The result was the publication of the *Quality of Growth* in May 2000 which advocates broadening the policy framework from a quantitative agenda for short-term economic

Indicator	Outcome (level of improvement)
Profitability (NI/sales)	Significant
Efficiency (real sales per worker)	Significant
Output (real sales)	Significant
Leverage (total debt/total assets)	Significant
Dividends (cash dividends/sales)	Significant
Capital investment (cap E&P/sales)	Significant
Employment (no. of employees)	Mixed

Table I.
Outcome of
privatization of SOEs

growth to a qualitative agenda involving human, social, and environmentally sustainable development (World Bank, 2000).

The results of the 2000 World Bank study is generally supported by various research studies conducted from 1995-2000 on the effectiveness of privatization activities relevant to human resources management (HRM). As shown in Table II, the conclusions of these recent studies conducted around the world, reflect negative as well as positive consequences of the various privatization activities.

The most widely used methods of privatization are by “contract” and “by sale”. In the following section the impact and effectiveness of privatization by contract are explored.

The impact of privatization by contract

By the mid 1980s, the average American city contracted out 23 per cent of its 64 common municipal services to the private sector while the average American state contracted out 14 per cent of its activities. More than 200 different services were being provided by contractors to local governments and the practice has grown rapidly at both state and local levels, regardless of the political affiliation of elected officials (Savas, 1987). Between 1982 and 1992 contracting out increased by 121 per cent in the 596 cities where comparable data were available (Green, 1996).

Each relationship between a government and the manager of a state-owned enterprise, between the government and private managers of state assets, or between a government and the owner of a regulated, private monopoly, can be seen as a contract, that is, an agreement between the government and the other party based on shared expectations. Countries often use contracts for their most important and problematic activities, such as infrastructure monopolies (electricity, water, telecom), and major exporters and revenue earners (tea in Sri Lanka, gold in Ghana, and hotels in Egypt). Yet little is known about whether such contracts work, what distinguishes the successful contracts, or which type of contract works best in which circumstances. The World Bank conducted an international study, which focused on three types of contracts, in 1995 (World Bank, 1995b). The general overall results of this study are shown in Table III.

For each type of contract, a sample of firms were examined to determine whether in each instance the contract improved performance as reflected in such indicators as return on assets, labor productivity, and total factor productivity. Comparing performance before and after implementation of the contract it was found that performance contracts worked the least well. Management contracts worked better, but only in specific circumstances. Regulatory contracts worked well for enterprises in monopoly markets, provided that they were properly designed and implemented.

The mixed results of the World Bank study on “contracting out” is further supported by a summary of international empirical findings from research studies conducted from 1993-1995, as is shown in Table IV. As can be seen

Year(s)	Region/countries	Source	HRM topics	Conclusions
1999	Hungary and Kazakhstan	World Bank (1999)	Labor-management relations	Uneven and mixed results
1999	Poland, Czech, and Russia	Potts (1999)	Structural reform, budget constraints	Danger of fast privatization, chaotic and failing to produce the described economic outcomes
1998	General	Cunha and Cooper (1998)	Corporate culture, occupational stress, job dissatisfaction, ill health	Impact on internal environment, need to consider human as well as economic factors
1998	Developing countries worldwide	World Bank (1998)	Labor	Need to reduce political and social costs of labor restructuring in privatization
1997	Worldwide	World Bank (1997a)	Efficiency, balanced development of human social, and economic factor, labor, social services	Need for a "two-track strategy" for privatization's long-term success that social and economic growth
1995	Latin America Caribbean	World Bank (1995a)	Wage determination, job security, social security, subsidies for training and education, social delivery systems	Need balance of economic performance and well being of workers
1995	UK	Parker (1995)	Management objectives, organizational structure, communication, labor	Internal organizational environment must adapt to changes in external environment to improve performance
1995	Eastern Europe (8 countries)	McCollum and Gentle-Marsh (1995)	Over-employment, lack of expertise and management skills	Although all eight countries implemented market-based economies, they remain unstable with productivity down, and both inflation and unemployment up
1995	General	Parker (1995)	Efficiency, goals, labor, communication	Privatization does not automatically lead to increased efficiency-without changes in internal environment

Table III.
Privatization through
contract

Type of contract	Relationship	Conclusion
Performance	Between government and public employees managing a state-owned enterprise	Rarely improve incentives, may do more harm than good
Management	Between government and a private firm contracted to manage an SOE	Work but only in some situations
Regulatory	Between government and the owners of a private, regulated monopoly	Work but require careful design

from the conclusions of these studies on “contracting out” the results of privatization had as many negative as well as positive consequences, particularly in the case of Paddon’s 1993 study of the UK and Europe, and Green’s study of US cities.

Table IV.
Summary of key
international empirical
findings on contracting
out

Study	Country/activity	Conclusions
Domberger, <i>et al.</i> (1993)	65 state government agencies in Australia in 1993, several functions	Cost reductions vary according to function, with building and vehicle maintenance yielding the highest savings, while transport and catering produced fewer savings
Martin and Stein (1993)	Total spending on seven functions over 877 cities in US	Although contracting reduces employment, reductions in total spending for the same functions were not found
Paddon (1993)	Review of UK and Europe experience	Mixed findings; savings are not guaranteed, and quality and accountability are problems
Rimmer (1993)	327 local councils in Australia, several functions	Commonly no change in costs; some cost reductions in city councils, but not in rural
Green (1994)	Productivity ratios for 70 US cities in late 1980s, six functions	Mixed findings provided little support to suggest that efficiency was higher in cities that used private firms to public services
Centre for Public Services (1995)	General review of UK experience in contracting	Contracted services resulted in corruption and secret business influence in government

Impact of privatization by sale

The number of countries selling state-owned enterprises increased in the 1980s, as divestiture spread from the industrial countries, notably the UK, to developing countries throughout the world. In the 1990s, many governments intensified their efforts, selling more enterprises and shifting their attention from small firms operating in competitive markets to large monopolies. Mass privatization efforts were begun in Eastern Europe and the republics of the former Soviet Union.

According to a World Bank study in 1997, the growing number of countries undertaking divestitures and the shifting regional focus has resulted in more than four times as many transactions in the six years from 1988-1993 as in the previous eight years (World Bank, 1997a). Although most of the increase was due to the explosion of privatization activity in the transition economies of Eastern Europe and Central Asia, the number of divestitures increased more than fourfold in Latin America and more than threefold in the rest of Asia. Even Sub-Saharan Africa experienced an increase in divestitures, but fewer privatizations than any other developing region. As a result of these increases, developing countries accounted for 86 per cent of transactions in 1993, up from 66 per cent in 1987.

The available information on the size and nature of divested enterprise supports the view that divestiture was not only more common, but also more significant by 1993. Country evidence and a sectoral breakdown indicate that 1987 sales involved relatively small state-owned enterprises, primarily in agribusiness, services, and light manufacturing. In 1988-93, by contrast, divestiture included the sale of large state-owned enterprises in such important sectors as electric and water utilities, transportation, and telecommunications, as well as major firms in the financial and industrial sectors. Of the \$96 billion in public revenue generated by divestiture in developing countries during this period, the largest share (\$32 billion) came from infrastructure.

Further analysis of the data on the number and value of transactions reveals wide regional divergence in the average size of firms. Latin America, with just one-fourth of the transactions, accounts for almost 60 per cent of the value, while Central and Eastern Europe, with almost half of the transactions, accounts for only 19 per cent of the value. This may reflect the greater experience with divestiture in Latin American countries, enabling them to sell larger enterprises. Central and Eastern European governments, new to the process, were selling smaller enterprises, as well as giving away shares through mass privatization schemes. Asia, with 16 per cent of the transactions and 21 per cent of the value, is second only to Latin America in average revenue per sale.

The World Bank study found that although governments are selling more and bigger enterprises, outside Eastern Europe, the former Soviet Union, and a handful of other countries, the SOE sector has remained large. It was found that large SOE sectors could hinder growth for a variety of reasons, in part because individual SOEs are usually less efficient than private firms and in part

because the resulting aggregate SOE deficits are typically financed in ways that undermine macroeconomic stability. However, there are notable exceptions as evidenced by a recent study of Singapore Telecom, an SOE that has enjoyed sustained world-class efficiency, profitability, and overall superior performance (Heracleous, 1999).

These studies clearly indicate that, despite divestiture efforts, state-owned enterprises continue to play an important role in developing economies, especially in the poorest countries. The overall results of privatization “by sale” appear to be mixed at best as is shown in Table V.

As can be seen from the findings and conclusions of the various studies involving productivity and efficiency shown in the top half of Table V and financial performance shown in the bottom half of Table V, the results of privatization by sale in the various countries and regions of the world had negative and positive consequences. Moreover, Parker and Hartley’s study of financial performance in the UK and Duncan and Bollard’s study on labor productivity and financial performance in New Zealand concluded that nationalization was as effective as privatization as a means of improvement in these particular cases.

A 1995 study of privatization of Brazil described Brazilian privatization “as limited, converting public monopolies into private oligopolies with no beneficial impact” (Ayres, 1995). More recently, a 1997 worldwide study by the World Bank on privatization concluded, “although private sector expansion may relieve governments from certain tasks, it also imposes new responsibilities” (World Bank, 1997b, c).

In many instances, the sale of state owned enterprises (SOE) to foreign-based buyers typically left the high risk, and poor sectors of the affected community to fend for themselves or created a demand for new government services. Often the foreign-based buyers purchase only the low-risk most financially stable of the SOEs forcing the weaker financially unstable SOEs to collapse or be rescued through subsidizes from the national government and/or loans from international agencies. Privatization of even critical social services such as health is often characterized by a focus on attracting the wealthy, healthy, low-maintenance patients while restricting services to the poor, unhealthy and high maintenance patients. One community-based report entitled *Private Gain, Public Pain: How Privatization Harms Communities* was released in February 2000, by the Institute for Southern Studies (ISS). This report, based on case studies, criticizes the growing practice of social services privatization by states and local governments, and concludes that in most cases, the long-term social impact of privatized public programs for health care, corrections, and support of poor children is a failure to meet community needs (Institute for Southern Studies, 2000).

Mitigating factors in privatization

As cited in the above tables, there are differences in the outcomes of privatization attributed to “type of contract” and “relationship of the parties” as

Study	Country/industry	Findings and conclusions	Privatization and social responsibility
<i>Productivity/efficiency</i>			
Hutchinson (1991)	17 firms in five sectors, in the UK	Labor productivity worsened	
Lorch (1991)	59 textile mills in Bangladesh, 1983-1986	Static efficiency improved, dynamic efficiency did not	
Duncan and Bollard (1992)	Coal Corporation of New Zealand, 1987-1992	Corporation improved labor productivity by around 100 per cent	
Domberger (1993)	Selected UK companies, 1979-1988	Changes unrelated to privatization	
Bishop <i>et al.</i> (1994)	Overall review of all UK privatizations through the 1980s	Privatization had "little effect"	
Parker and Martin (1993)	11 privatized firms in the UK throughout the 1980s	Mixed results	
<i>Financial performance</i>			
Parker and Hartley (1991)	Three privatized and nationalized firms in UK, 1971-1981	Privatization does not appear to guarantee improved performance, nor nationalization worsen performance	
Duncan and Bollard (1992)	Coal Corporation of New Zealand, 1987-1992	Returns on assets improved by 18.3 per cent after corporatization, without privatization	
Domberger (1993)	Selected UK companies, 1979-1988	Improved profitability appears to be wholly unrelated to privatization	
Parker and Martin (1993)	11 privatized firms in the UK, 1973-1992	Value added has improved at six firms, has been mixed or has declined at the remainder	
Sinha (1993)	40 UK privatizations, 1981-1991	Governments under price offerings to secure the sale of the whole issue. Large institutional investors make the most handsome profits	

Table V.

Summary of findings and conclusions on the effectiveness of enterprise sales

reported in the World Bank study (World Bank, 1995a, b) (Table III) and "government function" as described by Domberger's 1993 study (Table IV). It should also be noted that differences in the outcomes of privatization could also be attributed to the type of privatization activity, industries involved and the nature of the economic system of the country where the privatization activity is being implemented. As shown in Table VI, differences in the outcomes of privatization are especially apparent in the less competitive network industries

Privatization activity	Results and conclusions
Privatization of British Telecom, 1982-1993 (Moussios, 1994)	Privatization failed to generate a significant and lasting stimulus for improved performance
Privatization of ENTEL, Argentina's telecommunication company (Abdala, 1992)	Consumers were \$4 billion worse off due to substantially increased telephone charges. One example is a 500 per cent increase in connection charges
Privatization of Venezuela's telephone company, CANTV (Engen, 1994)	Prices rose by 400 per cent over two years
Privatization of UK water sector (Johnson, 1994)	Prices rose by 50 per cent over four years
Privatization in Brazil of various infrastructure projects (i.e. wastewater, fuel production and distribution) 1990-1995 (Ayres, 1995)	Privatization resulted in lack of equity, limited share ownership, and the need for new regulations on environment, consumer protection, and social welfare
New Zealand privatization program of utilities (Kelsey, 1993)	Consumer watchdogs were progressively weakened and transparency decreased
Bolivia's government's 40-year lease and control of public water system in third largest city, Cochabanta sold to a subsidiary of California-based Bechte Corp. in 1999 (<i>Minneapolis Star Tribune</i> , 7-15-2000)	Within weeks, the water rates doubled and tripled, causing a massive protest. The Bolivian government declared a "state of emergency". Military forces routed protest leaders and killed 17-year-old boy in the process
Ontario's environmental protection ministry was dismantled, budget cut by 50 per cent and environmental measures weakened to ease costs to such industrial sectors as steel, agriculture, mining, oil, and chemicals by a Conservative government from 1995-2000. Drinking water testing and inspection labs were also reduced (<i>The Toronto Star</i> , 7-8-2000)	Drinking water became unsafe and linked to a deadly e-coli outbreak in May 2000. In Southwestern Ontario 16 people died and 2000 residents became ill due to the drinking water
Privatization of state-owned enterprises including fuel (e.g. Petroleum Authority of Thailand) and energy production, distribution, and consumption (e.g. Electricity Generating Authority of Thailand) 1999-2000. (World Paper USA, <i>Thana Poopat</i> , 5-1-2000 and <i>The Nation Thailand</i> , 01-14-2000)	Over 100,000 workers were laid off which resulted in mass protests by unions and consumer groups claiming that privatization caused the rise of "cronyism, collusion, corruption, and complacency"

Table VI.
Privatization by sale of network industries and utilities

(e.g. telecommunications and electricity, etc.) and various utilities. For example, the privatization of British Telecom (1982-1993), resulted in the failure to generate a significant and lasting stimulus for improved performance (Moussios, 1994). While the privatization outcome for British Telecom was less than anticipated, it was not nearly as severe as the outcome of the privatization of ENTEL, Argentina's telecommunications company over a similar period of

time (Abdala, 1992). As shown in Table VI, Abdala concludes that consumers were \$4 billion worse off owing to substantially increased telephone charges and cited one example of a 500 per cent increase in connection charges. The privatization of Venezuela's telephone company, CANTV produced similar results (Engen, 1994).

Government regulation of the network industries in highly competitive economies such as the USA often provide an important mitigative role. However, this is not always the case as demonstrated by the experience in California in the spring of 2001 where consumers and small business were plagued with rolling blackouts. Prices for electricity rose by 50-100 per cent, resulting in the near bankruptcy of many small businesses. In June 2001, the US Federal Energy Regulatory Commission (FERC) voted unanimously to establish price constraints until June 2002, and a price-mitigation plan designed to maximize efficiency and reduce energy costs. However, the regulators imposed price caps on wholesale electricity sales that allow higher prices in California than before deregulation. This "soft-cap" approach permits energy suppliers to charge California buyers 10 per cent more than they charge elsewhere in the western region of the USA.

The FERC decision was followed by testimony before the US Congress in June 2001, by the Governor of California, who demanded that the power companies be required to refund \$9 billion, which was the difference between what the California consumer paid and the prices in the competitive market at that time.

The importance of including social factors

Social costs of privatization can range from a privatized hospital in the USA which gave rise to "prestige medicine" for the rich and "no care zones" for the uninsured working poor, chronically ill and disabled (Lensing, 1994), to a privatized water system in Bolivia, and an energy system in Thailand, both of which increased unemployment and decreased consumer welfare and resulted in the sudden rise of prices and culminated in a series of mass protests (see Table VI).

It is important to recognize the inequities caused by a growing global economy dominated by privatization. However, it is not productive or ultimately useful to those most adversely affected by this process, to lament its inevitability. It may be more productive to accentuate the differences in the outcomes of privatization based primarily on economic performance and those outcomes that balance economic and social performance in order to achieve broad-based sustainable development. Privatization activities should include social factors such as job security, occupational stress, equity, social services, the welfare of consumers, and responsibility to all stakeholders in the affected community and its natural environment. Studies by the International Labor Organization (Martin, 2000) and World Bank (World Bank, 1996) conclude that the inclusion of social factors and the participation by all stakeholders in the privatization process is especially important in the transition economies of Europe and the

economies of developing countries. Martin states that “the ILO supports governments in strengthening the institutional capacity needed to implement and manage privatization equitably as well as effectively”. Martin concludes with the proposition that “if privatization is to yield strong benefits to society as a whole, it needs to be managed to ensure transparency, equity, and fairness and consideration must be given to its impact on workers, employers, owners and investors, consumers, management and all other stakeholders” (Martin, 2000). The World Bank issued social assessment (SA) guidelines in 1994 to be used as a framework for social analysis and increased participation by those most adversely impacted by World Bank sponsored privatization projects in the affected communities. By 1996, the World Bank SA guidelines were extended and included in the environmental assessment (EA) review process for all bank projects. The World Bank maintains that providing a framework for incorporating social analysis and participation into privatization projects can result in a significant contribution to project quality (World Bank, 1996). The Russian Coal Sector Restructuring Project, the Estonia Agricultural Project, and the Azerbaijan Farm Privatization Pilot Project were some of the 24 World Bank projects in 1996 involving social analysis (SA) and in-country participation for key stakeholders in the affected communities (World Bank, 1996).

In the final analysis, an approach that takes into account measures of both economic and social indicators of success can provide a common bridge to reconcile critical differences between supporters and opponents of privatization. The key point is that privatization outcomes based on economic and social measures of success have the best chance of achieving long-term broad-based sustainable development. It minimizes the costs of disruption, the antagonisms inherent in oppositional forces, and the economic divides that communities and countries often experience.

Summary and conclusion

An analysis of international case studies and various survey data compiled and analyzed over the past ten years by prominent scholars and international research firms and agencies on the impact and effectiveness of privatization worldwide indicates:

- that the effectiveness of most privatization activities is based primarily, if not entirely, on economic measures of success;
- that even within the narrow focus on economic measures of success, the overall effectiveness of privatization are mixed at the international and national level; and
- that there should be a balancing of economic and social measures of success in determining the appropriateness and/or effectiveness of privatization.

In the final analysis, privatization in the form of “contracting out” or “by sale” is not a panacea to public sector services and may actually result in greater costs

to the government in the long term. When contracting reforms are applied to governments in a wholesale manner, there is a real danger that the market/contracting model will be emphasized at the expense of sensible alternatives such as “cooperation” or “negotiation” with in-house or external teams (Hodge, 2000). A series of alternative options for establishing the cost effectiveness and relative competitiveness of services exist. These range from the simple establishment of benchmarking comparisons, to the more well known competitive tendering and outsourcing options (Savas, 2000).

Formal “contracting out” through the market is only one of the modes of establishing the competitiveness of operations. There is certainly a current trend among managers to adopt without question quantitative techniques promising management improvements. The international literature and empirical findings on privatization as contracting out services do not support that competitive contracting is always appropriate or effective.

With regard to “privatization by sale”, the promised benefits of private ownership for the affected communities appear to have exceeded the measured gains to date. Perhaps the message from measured outcomes or past privatizations is the need for thoughtful consideration of qualitative factors. While it is now possible to privatize just about anything, it is not necessarily sensible to do so. The recurring theme of “winners and losers” that seems to inevitably follow privatization reforms and the speed and sense of inevitability with which such reforms are extended to the community need to be reexamined (Hodge, 2000).

Through careful structuring of the market and regulatory arrangements, communities and citizens stand to gain much through the judicious use of privatization as well as other reforms. However, differences remain between the theory of privatization on the one hand and the reality on the other. One size will not usually fit all and it requires careful consideration, the impact of social as well as economic factors on the affected community to achieve the right balance.

Worldwide research studies on the effectiveness of privatization over the last ten years provide ample evidence that when the balance of social and economic indicators are not present, a privatized activity which appears to have a successful outcome may be only short-term or misleading. Moreover, when judged in the broader context, the overall successful financial outcome of the privatization activity may have done more harm than good in the long-term to important human and social dimensions of the affected community and its natural environment.

Recommendations for future research

The following recommendations can be made:

- (1) There is a need to refocus the debate on privatization from an adversarial context – those forces and interests for and those against – to a context of advocacy centered on the best practices of privatization,

which includes all sectors, forces, and interests in the community affected by privatization activities.

- (2) There is a need to develop a solution that involves an approach that does not embrace extreme positions of either the proponents or opponents of privatization or that changes with partisan politics which may arbitrarily favor or oppose stricter enforcement of laws protecting consumers and the environment. Rather, the focus should be on a consistent policy of regulation based not on who is right but what is right for the affected community in the long term. It is neither productive, nor practical to weaken and then strengthen regulatory laws, as illustrated by the US Congress and state legislatures, between liberal and conservatives. Ultimately, it is more prudent and practical to base a consistent regulatory policy relative to privatization on a balance of social and economic standards and measures which take into consideration all those forces affected by any given privatization activity.
- (3) A well-prepared privatization strategy should include a social component that extends to the natural environment where applicable. Specifically, privatization should be accompanied by amendments to labor legislation, structural reforms in social security and pension plans, and environmental laws that extend liability to the state owned enterprises (SOEs) and/or the private sector investors to protect the affected communities. All too often environmental problems such as pollution are considered to be externalities, which generally mean that a third party who is not involved in a marketplace transaction is unintentionally harmed. The consenting parties to the transaction are able to damage the third party without compensating it, thus the exchange does not adequately reflect the true costs to society.
- (4) Finally, it is recommended that future research should focus on the questions with which I now conclude:
 - What are the “best practices” in privatization strategies and implementation that lead to projects whose combined economic and social outcomes are superior?
 - How can these “best practices” lead to benchmarking standards that can be applied to future privatization situations?

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