

# **The Effect of Privatization on Employees' Welfare: A case of Newly Privatized Companies in Ghana**

**Prof. P.R. Banerjee**

London College of Management Studies, UK

**Frank Bamfo**

Breyer State University London Centre

---

---

## **Abstract**

*The primary aim of our research was to establish the effect of privatization on employees' welfare. And to do that, questionnaires which sought to compare elements of employees' welfare (before and after privatization) were administered to current employees who were in the company before the privatization. Interviews were also conducted with the management of our case study; Ghana Agro – Food Company (GAFCO), on various post-privatization organizational changes. Conclusions drawn from the analysis of the data collected indicated that privatization has had a mixed effect on employees' welfare. We hope our findings shall help employees of privatized companies reappraise their apprehensions towards privatization while governments and managers of privatized companies devise means to minimise the seemingly negative impact of privatization on employees' welfare.*

## **Key Words**

*Privatization, Organizational change, Employees' welfare*

---

## **Introduction**

Centuries of economic policy making have been affected by political and ideological controversies centred on issues of ownership of productive assets. Until the last quarter of the 20th century, governments in most countries tended to expand state-owned sectors in pursuit of their chosen policy goals. Transfer of ownership from public sector to the private sector was exceptional (Jasinski and Yarrow, 1996).

During the 1970s and 1980s however, the concept of privatization became a household word in the transformation of the public sector; public service and public owned enterprises of many countries. Privatization programmes were consequently launched. Chile introduced privatization in 1974. The United Kingdom implemented a rigorous privatization programme during the regime of Margaret Thatcher in the 1980s. In Ghana, privatization was introduced under the Economic Recovery Programme (ERP) in 1986 as part of the Structural Adjustment programme. But privatization in itself does not result in improvement in the effectiveness and efficiency of privatized companies (Dzakpasu, 2005). Privatized companies need to undergo a comprehensive organizational change; an

all-embracing and integrative change in the operations of an organization not only to achieve their goals, but also to survive in a changing business environment (Daft, 1982).

However, in many countries where privatization has been launched, there is often tremendous resistance from Unions and workers who tend to associate privatizations with retrenchments, redundancies, job cuts and general welfare losses. It was within the context of these contesting and contrasting claims of the benefits of privatization among policy implementers and management of privatized companies on one hand and employees of privatized companies on the other that we undertook our research.

## **Literature review**

Privatization has become a buzzword with many meanings. In one instance, privatization is seen as a process where by activities or enterprises that were once performed or operated by the government and its employees are now performed, managed or owned by private businesses and individuals (Anbumani, 1994). In another instance, (Dick, 1987) contends that privatization implies the transfer of government-owned industries to the private sector. (Hemming and Mansoor, 1988) defined privatization as a process by which the state's role within the economy is circumscribed while at the same time the scope for the operation of private capital is deliberately extended. In our research however, privatization was regarded as the transfer of all or any of the three kinds of property rights; ownership rights, operating rights, development rights, from the state to the private sector.

## **Types of privatization**

There are two types of privatization with distinct yet overlapping contents, motivation and analytical ramifications; privatization of public service and privatization of public industrial and commercial concerns (Glade, 1986).\_Privatization of the public service could involve the abolition or severe curtailment of public services on the assumption that private provision will fill the gap and the contracting out of public service implementation to private agents.

Privatization of public industrial and commercial concerns can take different forms. These include; private sector participation in public investment projects through joint (public-private) ventures; introduction of private sector managers, criteria of efficiency and procedures into the public enterprises; deregulation and liberalisation of certain sectors particularly post, telecommunication and transport to facilitate private sector participation and competition with the public sector; sale of subsidiaries belonging to nationalized industries and banks; creation of subsidiaries with separate market-oriented managements and pay structures within the public groups and industries; sale of minority stocks in companies totally owned or largely controlled by the state; sale of majority shares in nationalized companies leaving the state with a minority and often destined for future sale- divestiture; outright sale of public firms to private investors.

## **Organizational change**

Organizational change involves the adoption of new ideas or change to one or more areas or elements of an organization's operations; strategy, technology, products, structure, and culture (Daft, 1982). For a company which has just been privatized however, the changes must be all-embracing and integrative of all the elements. The word "structure" is defined as the constraints under which institutions function in their day-to-day operations. Restructuring is therefore interpreted as the attempts made by organizations to relax some or all of the short-term constraints or a set of discrete decisive measures taken in order to increase the competitiveness of an organization and enhance its value (Crum and Goldberg, 1998). Within the context of a privatized organization, almost any change in how the organization is managed falls under the category of structural change (Thompson, 1990).

Technological change involves the ability of organizations to adopt their production processes to new and more efficient technology. For manufacturing organizations, one way of ensuring post-privatization efficiency and productivity is to invest in massive rehabilitation of existing plants and machinery, and replacing obsolete plants and machinery with new and cost effective ones (Burns and Stalker, 1961). A culture/ people change refers to a change in employees' or an organization's values, norms, attitudes, beliefs, and behaviour. Two specific tools of bringing about culture change are training or management development, and organizational development (Keep, 1992).

A product change is a change in an organization's product or service output. It is one of the key means by which corporate renewal is achieved. For newly privatized companies, product change is a demonstration of their ability to adapt to changes in markets, technologies, and competition, and also to reposition themselves on the market (Dougherty and Hardy, 1996).

Changes in Strategy: Strategy is the set of decisions and actions used to formulate and implement options that provide a competitively superior fit between the organization and its environment in order to achieve organizational goals (Pearce, et al, 1985). For privatized companies, the change in strategy should answer the following questions; What changes and trends are occurring in the competitive environment? Who are our customers? What products or services should we offer? How can we offer those products and services most efficiently? Answers to these questions are relevant to all levels of planning in the organization; strategic, tactical and operational.

## **Employees' welfare**

As stakeholders, employees have different interests to uphold and defend in an organization (Roberts and King, 1989). These interests constitute employees' welfare and justify why employees are ready to give off their labour (Donaldson and Preston, 1995). Based on motivational theories and models such as the simple model of human motivation, the foundations of motivation (Steers and Porter, 1983); traditional approach

(Taylor, 1947), human relations approach (Mayo, 1949), human resource approach (McGregor), and the contemporary approach - the content theories (Maslow, 1954; Herzberg, 1966 and Alderfer, 1968), the process theories (Adams, 1965; Vroom, 1964), the reinforcement theory (Lundy and Cowling, 1996), the underlying welfare needs of employees can be articulated. These needs are many, but in our research, we will restrict ourselves to the following;

By a job, employees demand a specified unit of work which is not only challenging and fulfilling but also free from redundancy and disruptions. By health and safety, employees demand to work in a safe environment devoid of physical dangers. This means that employers are responsible for the following; providing personal safety equipments (goggles, boots, gloves helmets) for the job and ensuring that it is used in accordance with correct procedures, making sure that employees do not undertake dangerous activities, checking that all the procedures involved in jobs are safe, providing adequate light, heat and ventilation at workplace, carrying out hazards and risks assessments and making sure that employees have adequate information and training about emergency evacuation procedures.

Pay is the material reward and a symbol of recognition for an employee's contribution to organizational efforts (Thierry, 1992). In an organization, employees do not only demand a pay, but one that is prompt, regular and commensurate with individual skills, efforts, and experiences. Employees also demand equity and fairness in the administration of pay. Allowances are financial reward for sacrifices that employees have to make in the pursuit of their normal job schedules. These include location allowance, subsistence allowances, overtime payments, shift payments, and stand-by and call-out allowances. In addition to cash pay, employees demand other benefits to cater for their emergency security and financial needs. These benefits cover three main areas of employees' needs; personal security needs (health care services, insurance cover, sick and redundancy pay). financial assistance (company loan, discount on company product and services, relocation packages, seasonal ticket loan), and personal social needs (paid holidays, maternity, paternity, compassionate leave with pay, child care, restaurant and sport facilities).

Employee empowerment is the delegation of power or authority to subordinates (employees) in an organization to act more freely in accomplishing their jobs (Hollander and Offermann, 1990). At the end of it all, employees want a workplace where each person can learn, grow and contribute to organizational goals.

## **Research aims and objectives**

While the overall aim of our research was to investigate the effect of privatization on employees' welfare, our specific objectives were to assess the post-privatization organizational changes and compare employees' welfare packages before and after privatization.

## **Research strategy**

In order to carry out our research, we needed strategy; a general plan of how to answer research questions (Saunders, 2003). Among other plans such as experiments, surveys, grounded theory, ethnography, and action research, we decided on the case study approach in view of our research objectives. Our case study, Ghana Agro-Food Company (GAFCO), was founded by Mr C. Drevicci and incorporated under the Companies Code of the Republic of Ghana as J. Saba & Drevicci Groups of Companies in 1962. In 1968 the Company was nationalized and renamed Tema Food Complex Corporation (TFCC). The Company was however divested in 1994 as part of the Government of Ghana's Structural Adjustment Programme. GAFCO, the largest agro-processing company in Ghana, is now a joint-venture company between the Government of Ghana (15%), the Social Security and National Insurance Trust (SSNIT) - (10%) and IBN-AG a Swiss Corporation (75%).

Since taking over the defunct TFCC, GAFCO has undertaken changes in its organizational structures, production technology, strategy, products, and culture (Fact File, DIC, 2003). These changes, we believe, have had far-reaching effects on the welfare of employees.

## **Research methods**

Research methods are the specific means of carrying out the primary research or the data collection phase of a research work (Fisher, 2004). Under the case study strategy, these methods include questionnaires, interviews, observations, and documentary analyses. But as an explanatory research aimed at examining and evaluating the relationships between privatization and employees' welfare, our chosen source of data collection were questionnaires and interviews.

## **Sampling approach**

Sampling involves the selection of a subgroup or part of a larger population which can be used to generalise about the total population (Saunders.2003).

Our sample was made up of about two hundred employees who were employed during the time of the defunct TFCC and still at post after the privatization. The sample represent a fifth of the current workforce of GAFCO and present distinguishing variables in terms of age, gender, education, marital status, and position in the company.

## **Data collection and collation**

To serve our research objectives and reflect the peculiar circumstances of our case study, our questionnaires were self-administered and a return of 75% was recorded. The questionnaire document was divided into two parts, "before privatization" and "after privatization" but respondents were asked the same questions in each case. The closed-ended questions included dichotomous questions, multiple choice questions, rating or scale questions, and ranking questions and covered major elements of employees' welfares such job, health and safety, pay, incentives, allowances, employee

empowerment, and freedom of association Under each of these major elements were also other minor elements.

In collating the result of our questionnaire, tallies of the minor items under each sub item were calculated as a percentage of the total number of respondents. Then the average of the respective percentages of the minor items was taken to represent the score of the sub item which were subsequently used to calculate the average score for the main items of employees' welfare before and after privatization respectively. Additionally, semi-structured interviews were conducted with the management as well as heads of production plants and departments on the change processes at GAFCO.

### **Data analysis and discussion of results**

The results of our questionnaires presented in Table 1 and summarized in Table 2 indicate a significant improvement in employees' welfare after privatization. One could however argue that these improvements may not be that significant as the differences in values could have resulted from sampling error. In order to accept or reject this claim, we adopted a statistical procedure known as Analysis of Variance (ANOVA) to determine whether or not there has been a significant improvement in employees' welfare after privatization. The null hypothesis (Ho) states that the average welfare of employees before and after privatization are equal, while the alternative hypothesis states that there has been a significant improvement in employees' welfare after the privatization at 5% level of significance. The decision rule is to reject the claim of the null hypothesis if  $F = MSA/MSE > F_{0.05}$ , where MSA is the mean sum of squares due to the treatments (before and after privatization), MSE is the mean sum of squares due to the error, and  $F_{0.05}$  is read directly from a statistical table.

There is sufficient evidence from Table 3 to reject the null hypothesis. We therefore conclude that we are 95 % confidence that there has been significant improvement in employees' welfare after privatization.

**Table 1 : RESULT OF QUESTIONNAIRE**

		<b>Before</b>	<b>After</b>	<b>Diff. (%)</b>
<b>Health and Safety</b>	Ventilation/Lighting	84	67	-17
	Safety Items	85	84	-1
	Safety Training	40	75	35
	Risk and hazard	45	50	5
<b>Average (%)</b>		<b>64</b>	<b>69</b>	<b>5</b>
<b>Job Environment</b>	Job Enlargement	45	60	15
	Job Enrichment	60	80	20
	Freedom to Plan	70	65	-5
	Job Security	67	40	-27
	Influence	33	53	20
<b>Average (%)</b>		<b>55</b>	<b>60</b>	<b>5</b>

<b>Wages/Salaries</b>	Prompt payment	80	93	13
	Pay satisfaction	13	45	32
	Underpaid	47	27	-20
	Overtime	80	67	-13
	Overtime pay	58	55	-3
<b>Average (%)</b>		<b>56</b>	<b>57</b>	<b>1</b>
<b>Benefits</b>	Insurance	50	50	0
	Sick pay	93	93	0
	Incentives	53	50	-3
	Facilities	55	70	15
	Awards	40	47	7
<b>Average (%)</b>		<b>58</b>	<b>62</b>	<b>4</b>

**Table 2 : SUMMARY OF RESULTS FROM QUESTIONNAIRE**

SUMMARY				
<i>Groups</i>	<i>Count</i>	<i>Sum</i>	<i>Average</i>	<i>Variance</i>
Before	4	231.9461	57.9865	5.9132
After	4	258.5000	64.6250	106.0069

**Table 3 : ANOVA**

Table 3: ANOVA					
<i>Source of Variation</i>	<i>SS</i>	<i>DF</i>	<i>MS</i>	<i>F</i>	<i>F0.05</i>
Between Treatment	88.1384	1	88.1384	10.97	10.13
Within Blocks	27.9757	3	2.9702		
Error	28.2560	3	9.4187		
<b>Total</b>	<b>144.3701</b>	<b>7</b>			

### Summary of Findings

From table1, we can conclude that on the whole, privatization has had a positive effect on employees' welfare with general improvement in employees' health and safety, jobs, wages and salaries, allowances, and benefits. On health and safety, 64% of respondents were satisfied with health and safety provisions before privatization as against 69% after privatization. On jobs, 55% of respondents were satisfied with their respective jobs as against 60% for the period after privatization. On the whole, there has not been much difference in the levels of employees' appreciation of their wages and salaries for the periods before and after privatization. The provisions of various items of employees' benefits and allowances have increased from 58% of respondents before privatization to 62% after privatization.

### Managerial Implications

Despite the general improvement in the welfare of employees after privatization, there are some aspects of employees' welfare which have been affected negatively. These exceptions have managerial implications in view of the role and importance of all aspects of employees' welfare to the achievement of organizational goals.

Firstly, employees' need for good ventilation and lighting as well as mandatory risk and hazards assessment in their workplace, have depreciated since privatization. 67% of the respondents were satisfied with the current situation of ventilation and lighting as against 84% for the period before privatization. Similarly, only 50% of respondents affirmed their satisfaction with the periodic risk and hazards assessments for the period after privatization. We think this situation is not good for employees' welfare even though it represents an increase of 5% over that before the privatization. We therefore recommend that immediate steps are taken to improve ventilation and lighting facilities for employees and also the mandatory risks and hazards assessments are strictly adhered to and implemented.

Secondly, employees' need for job security; jobs free from threats of redundancy and job loses, as well as the freedom to influence organizational decisions have been adversely affected since privatization. We recommend that employees who work continuously for a period of six months under any form of flexible short-term contract are given the option to change to a permanent status in accordance with existing labour laws. Similarly, "the employee participation" approach, which is the current thinking in organizational planning, be implemented in post-privatization planning.

On equity and fairness in the administration of employees' salaries and wages, only 45% of respondents expressed their satisfaction for the period after privatization. Even though the current figure represents an increase of 32%, over that before privatization, we think it is still not good enough for employees' welfare. We consequently recommend a wage administration based on objective evaluation and appraisal of comparative tasks. Factors such as qualifications, experience and aptitudes could also be valued in relation to employees' salaries. The Annual performance appraisal and assessment should be as transparent and objective as possible to eliminate all doubts. These initiatives could help address employees' feeling of underpayment in respect of their individual roles and also in respect to other individuals who perform similar roles.

Fourthly, employees' satisfaction with the provision of various forms of insurances remained at 50% of respondents for both the pre and post privatization periods. These meant that half of the respondents were and are still not satisfied with the levels of various insurance policies. There is the need for a comprehensive employees' insurance policy to cater for all contingencies at the workplace. This will motivate employees to give off their best.

Finally, some aspects of employees' benefits such as relocation packages, discounts on company goods and services, as well as the value, in terms of money of employees'



awards have declined since privatization. The decline in employees' benefits and value of awards is a matter of concern since these are crucial in assuring and encouraging employees to give worker harder. There is the need for a more generous benefits and award packages to match employees' sacrifices and efforts.

### **Future research directions**

There is a growing interest in researching the relationships between privatization and employees' welfare. The nature and results of our research not only contribute to this debate but also open the door for further research into the issue.

Firstly, our research points to the fact that privatization has had, on the whole, a positive effect on the welfare of employees. This finding however contradicts the apprehension, which concerns employees' welfare losses, often held by labor unions and employees about privatization. There is therefore the need to research further into factors which form and determine the negative perception of employees towards privatization.

Secondly, the mode of privatization for the case study of our research was that of divestiture. We believe our results would have been different if we had used any of the other modes of privatization; direct sales, lease, and management contract. Further research in this direction is therefore recommended. Thirdly, the results of our research were based on a case study of one privatized company. This could have affected the results. Perhaps a multi- company case study could offer more room for comparison.

### **References**

- Adams, S.T. (1965), "Injustices in Social Exchange", in *Advances in Experimental Social Psychology*, 2<sup>nd</sup> edn, ed. L. Berkowitz, Academic Press, New York.
- Anbumani, V. et al, (1994) "Economics of Privatization: Emerging Theoretical Issues" in *Economics of Privatization - Issues and Options*, edited by Bebendra Kumar Das and Vishnudeo Bhagat, Beep and Deep Publications, New Delhi.
- Daft, R.L. (1982), "Bureaucratic vrs. Non-bureaucratic structure in the process of Innovation and Change," in *Perspectives in Organizational Sociology: Theory and Research*, ed. Samuel B. Bacharach, JAI Press, Greenwich, Conn.129-166.
- Dick, B.W. (1987), *Privatization in the UK: The Free Market Versus State Control*, (Longman Economics Series), Longman Group Resources, York.
- Donaldson, T and Preston, L. E. (1995), "The stakeholder Theory of the Corporation Concepts, Evidence and Implications", *Academy of Management Review*20, no, 1.
- Burns, T. and Stalker, G.M. (1961), *The Management of Innovation*, Tavistock Publications, London.
- Dougherty, D. and Hardy, C. (1996), "Sustained Product Innovation in Large, Mature organizations: Overcoming Innovation-to- Organization Problems" *Academy of Management Journal* 39, no.5.

- Dzakpasu, C.( 2005 ), "Privatization and Management Development in Africa", in Interdepartmental Action Programme on Privatization, Restructuring and Economic Democracy, Working Paper, IPRED-10. Divestiture Implementation Committee, (2003), Fact File, DIC, Accra.
- Fisher, C. (2004), *Researching and Writing a Dissertation for Business Students*, Prentice Hall, London.
- Hemming, J. and Mansoor, R. (1988), *Insights into Privatizations*, Collins Press, New York.
- Herzberg, F. (1966), *Work and the Nature of Man*, Staples Press, London.
- Hollander, E.P. and Offermann, L.R (1990), "Power and Leadership in Organizations", *American Psychologist* 45.
- Jasinski, P. and Yarrow, G. (1996), "Privatisation: An overview of the Issues" in *Privatisation; Critical perspectives on the World Economy (Vol I)* edited by George Yarrow and Piotr Jasinski, Routledge, London.
- Lundy, O. and Cowling, A (1996), *Strategic Human Resource Management*, Routledge, London.
- Maslow, A. (1954), *Motivation and Personality*, Harper & Row, New York.
- Mayo, E. (1949), *the social problems of an Industrial civilization*, Routledge & Kegan Paul, London
- Roberts, N.C. and king, P. J. (1989), "The stakeholder Audit Goes Public," *Organisational Dynamics* (winter).63-70.
- Saunders, M., et al, (2003), *Research methods for Business Students (3<sup>rd</sup> edn)*, Pearson Education Limited, England.
- Steers, R.M. and Porter, I. W. (1983) eds., *Motivation and the Work Behaviour*, 3<sup>rd</sup>, McGraw-Hill, New York.
- Taylor, F.W. (1947), *Scientific Management*, Harper & Row, New York. Routledge & Kegan Paul, London
- Thierry, H. (1992), "Pay and Payment systems", in *Employee Relations*, Hartley, J. and Stephenson, G. (eds), Blackwell, Oxford Vroom, V.H. (1964), *Work and Motivation*, Wiley, New York