Chapter – III
FUNDAMENTALS OF EMPLOYEES’ ATTITUDE TOWARDS PRIVATIZATION

3:1. Introduction to Employees’ Attitude towards Privatization

3:2. Privatization
   3:2.1. Meaning & Definition of Privatization
   3:2.2. Measures of Privatization
   3:2.3. Types of Privatization
   3:2.4. Advantages of Privatization
   3:2.5. Disadvantages of Privatization

3:3. Attitudes
   3:3.1. Developing Attitudes
   3:3.2. Functions and Measurement of Attitudes
   3:3.3. Changing Attitude
   3:3.4. Importance of Employees’ Attitude in Management
3:1 Introduction to Employees’ Attitude towards Privatization

Over the last decade there has been an extensive change of attitude about the role of state and private enterprises in promoting economic growth. A strong consensus has emerged that the achievement of more dynamic economic growth requires a greater role for the private sector. Underlying this consensus is the belief that resources will be used more productively if they are relocated to the private sector.

In the 1960s, there was a drift towards nationalization in Britain. But, since the late 1970s, the drift was towards privatization by selling State Owned Enterprises (SOEs). The performance of SOEs in many countries was, by and large, been far from satisfactory. They often put large burdens on public budgets and external debt. In 1997-98, out of the 238 operating Central public undertakings in India, 100 undertakings had incurred a combined loss of about Rs.6541 crore. The heavy financial burden imposed by the SOEs and the growing public displeasure against them due to their inefficiency, indifferent, irresponsible and sometimes even arrogant attitude and lack of concern for the customer needs; and corruption, discrimination and misuse associated with their organization and management led to the growing interest in privatization.

In a socialist economies working under a command system of management, little initiative was left with the managers of public enterprises. In developing countries like India with a large public sector, freedom for decision making by the managing directors was extremely restricted. They had to depend on the ministers/ministries – in other words, the political masters. Consequently, irrational delays resulting in inefficiencies, lack of capacity utilization and low productivity.

Pricing policies in a number of public enterprises are not guided by lucid economic considerations. Social and political constraints compel public enterprises to charge uneconomic prices resulting in losses.
Public enterprises can afford soft budget options because their losses can be met out of the general revenues. In view of the availability of this option and absence of competition, the pressure to take hard economic decisions is evident by its absence.

The managers of public enterprises tend to become procedure-oriented rather than outcome oriented and thus start playing safe and send even ordinary decisions for approval of top bosses in the ministries so that in the event of loss, they may not be held responsible.

These problems have led many governments to undertake programmes of public sector reform, and pushed by a need to curb public expenditure, to reevaluate the possibilities for shifting publicly managed activities into the private sector. But this proposal faced strong opposition from the side of employees and their union. The researcher will analyze the fundamental reasons for this opposition, in the analysis chapter but now he will deal with the concepts like: privatization and employees’ attitude. First of all, let’s go through the background information of privatization.

3:2 Privatization
The privatization term was first used in the 1930s by the Economist in covering Nazi German Economic Policy.\(^1\) There is a long history of privatization dating from Ancient Greece when the government contracted out almost everything to the private sector. In the Roman Republic private individuals and companies performed the majority of services including tax collection, army supplies, religious sacrifices and construction.

In more recent times, Winston Churchill’s government privatized the British steel industry in the 1950s, and West Germany’s government embarked on large-scale privatization, including selling its majority stake in Volkswagen to small investors in a

public share offering in 1961.\textsuperscript{2} In the 1970s General Pinochet implemented a significant privatization program in Chile. However, it was in the 1980s under the leaderships of Margaret Thatcher in the UK and Ronald Reagan in the USA, that privatization gained worldwide momentum.

In UK, privatization\textsuperscript{3} on a large scale was undertaken by the Thatcher Government after 1979 with the electricity, gas, and telecommunications industries being sold. The advantages of privatization from the government's perspective included: raising large sums of money to compensate public borrowing; weakening the power of public sector trade unions; widening share ownership; giving the management of former nationalized industries normal commercial autonomy; and reducing the burden of decision-making imposed on government by public ownership. Critics of the British privatizations argued that they were undertaken so that maximizing competition was sacrificed in the interest of ensuring the greatest possible revenue from the sales and protecting the monopolistic positions of the existing enterprises. The perceived policy success of privatization in Britain led to its imitation in many other countries. In particular, organizations such as the World Bank encouraged developing countries to dispose of their loss-making state-owned industries. Privatization in the former Soviet Union\textsuperscript{4} has occurred more slowly than anticipated and has often involved acquisitions of enterprises by the managements on favourable terms.


In US, after World War II, public agencies themselves began privatizing without legislative guidance. In 1955, the Bureau of the Budget officially discouraged federal agencies from producing any "product or service which can be procured from private enterprise through ordinary business channels." In the mid-1970s the Ford administration proposed legislation eliminating federal involvement in airline, trucking, banking, and gas industries, and one aspect of President Jimmy Carter's energy policy at the end of the decade was to end regulation of natural gas. But it was President Ronald Reagan who made the strongest postwar push for privatization on the federal level. Reagan established the Private Sector Survey on Cost Control (Grace Commission) to "identify opportunities for increased efficiency and reduced costs in federal government operations." Congress supported the Commission's recommendations, and in the 1985 Deficit Reduction Act required "the President to report on progress in implementing commission recommendations." This led to the largest privatization in U.S.

In Russia, privatization began in January 1992, together with the implementation of the stabilization program, and assumed the form of liberalization of small-scale trade (street vending). This "small privatization" was conducted at a quick pace in the services sector, which consisted of trade, catering services to households, construction, individual transportation activities, and housing. It was often spoiled by chaos and crime. The small-scale state enterprises (which had already been transferred to the local authorities in 1991) were sold to citizens, local entrepreneurs, and employees, basically through auctions. At the same time, as prices and individual activities were liberalized, it became immediately possible to create new, small-scale businesses, especially in fields where human capital was the main requirement, such as consulting, engineering, private

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teaching, and computer services. Actually, such activities were already privately conducted in the Soviet era within the dark economy.

The Russian government was clearly privileging the political objective, and hence opted for a quick mass privatization scheme. It also favored equity considerations, so that the people would benefit from the divestment of the state. In June 1992, the mass privatization program\(^7\) was adopted, and in October the voucher system\(^8\) was launched.

All Russian citizens received 10,000 rubles' worth of privatization vouchers (equivalent then to 50 U.S. dollars), immediately redeemable in cash, or exchangeable against shares in the enterprises selected for privatization that had been transformed into joint stock companies. These enterprises were sold at direct public auctions. The staff (employees and management) could opt for three variants, of which the most popular was the allocation of 51 percent of the shares to the employees at a discounted price. Seventy percent of the enterprises were thus privatized by the end of June 1994; past this deadline the vouchers were no longer valid. The second wave of large-scale privatization proceeded much more slowly and was far from complete in 2002. It had to be based upon sales to foreigners or domestic buyers. It was slowed by several factors: the Russian financial crisis of 1998, which led to a collapse of the banking sector; the scandals linked with the outcomes of the first wave, when several notorious deals evidenced the dominant role of insiders who managed to acquire large assets with very little cash; and, finally, the enormous stakes of the second wave, which involved privatization of the energy sector (oil, gas, and electricity) and the telecommunications sector. The most prominent owners of Russian enterprises were the Oligarchs, who controlled the largest firms of the energy and raw materials sector, but who became less powerful after Boris Yeltsin's resignation in 1999. Restructuring of enterprises and improving of corporate governance did not

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proceed along with the change in ownership. Privatization was close to completion in Russia as of 2002, when 75 percent of the GDP was created by the private sector. However, the private sector had yet to function according to the rules of a transparent market.

The largest privatization in history was Japan Post. It was the nation's largest employer and one third of all Japanese government employees worked for Japan Post. The Prime Minister Junichiro Koizumi wanted to privatize it because it was thought to be an inefficient and a source of corruption. In September 2003, Koizumi's cabinet proposed splitting Japan Post into four separate companies: a bank, an insurance company, a postal service company, and a fourth company to handle the post offices as retail storefronts of the other three. After privatization was rejected by upper house, Koizumi scheduled nationwide elections to be held on September 11, 2005. He declared the election to be a referendum on postal privatization. Koizumi subsequently won this election, gaining the necessary supermajority and a mandate for reform, and in October 2005, the bill was passed to privatize Japan Post in 2007.

Nippon Telegraph and Telephone's privatization in 1987 was the largest share offering in financial history at the time. 15 of the world's 20 largest public share offerings have been privatizations of telecoms. The United Kingdom's largest public share offerings were privatizations of British Telecom and British Gas. The largest public share offering in France was France Telecom. Privatization in Europe has led to genuine competition: the former state-owned enterprises lost their monopolies due to legislation and technological

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change, competitors entered the market, and prices for broadband access and telephone calls fell dramatically.

A wave of privatization swept through Russia and Eastern Europe after the fall of Communism in the 1990s, and through some Latin American countries such as Peru, as new, democratic governments were established.

The early 1990’s saw a paradigm shift in the economic policy of the Indian government. The mammoth structure of the license-permit regime was suddenly replaced by the liberal economic policy and with it started the process through which the government started getting out of most economic activities. Private players were invited for take on some of the vital sectors of the economy and a mixed economy, which was influenced with the Soviet style, was chanting the mantra of Privatization. The process has gained momentum in various sectors - for instance education, telecommunication, power, civil aviation, banking, insurance and mining.

In India, although there were some isolated cases of privatization, no definite policy decisions were taken until the new economic policy was been ushered in. The divestment policy, as enunciated by the Chandrashekhar Government in the Interim Budget 1991-92, was to divest up to 20% of the government equity in selected PSEs in favour of public sector institutional investors. The objective of the policy was stated to be to broad-base equity, improve management, and enhance the availability of resources for these PSEs and yield resources for the exchequer.

The Industrial Policy Statement of 24th July 1991 stated that the government would divest part of its holdings in selected PSEs, but did not place any cap on the extent of disinvestment. Nor did it restrict disinvestment in favour of any particular class of investors. The objective for disinvestment was stated to be to provide further market discipline to the performance of public enterprises. However, Budget speech 1991-92, reinstated the cap of 20% for disinvestments and the eligible investors’ universe was again modified to consist of mutual funds and investment institutions in the public sector.
and the workers in these firms. The objectives too were modified, the modified objectives
being: “to raise resources, encourage wider public participation and promote greater
accountability”.

In 1993 Government of India set up a Committee on Disinvestment in Public Sector
Enterprises under the chairmanship of C. Rangarajan. The recommendations of the
Report of the Committee on the Disinvestment of Shares in PSEs (Rangarajan
Committee), submitted in April 1993, emphasized the need for substantial disinvestment.
The Committee suggested that the percentage of equity to be divested could be up to 49
per cent for industries explicitly reserved for the public sector. It recommended that in
exceptional cases, such as the enterprises which had a dominant market share or where
separate identity had to be maintained for strategic reasons, the target public ownership
level could be kept at 26 %, that is, disinvestment could take place to the extent of 74%.
In all other cases, it recommended 100% divestment of Government stake. Holding of
51% or more equity by the government was recommended only for 6 Schedule industries,
namely, coal and lignite; mineral oils; arms, ammunition and defense equipment; atomic
energy; radioactive minerals, and railway transport.

Other important recommendations of the Committee are:

- The best method of disinvestment is offering shares to the general public at a fixed
  price through a general prospering.
- Instead of year wise targets of disinvestment, a clear action plan should be evolved.
- Disinvestment shall be in stages and sales shall be staggered so as to get the best
  possible price.
- A number of steps need to be undertaken for efficiently carrying out privatization.
  These may include restructuring of finance with a proper debt-equity gearing and on
  independent Regulatory Commission for the concerned sector if necessary.
- A scheme of preferential offer of shares to workers and employees may be devised.
- Ten percent of the proceeds of the privatization may be set apart for lending to the
  public enterprises on concessional terms for meeting their expansion and
  rationalization needs.
The Common Minimum Programme of the United Front Government: 1996, sought to carefully examine the public sector non-core strategic areas and to set up a Disinvestment Commission for advising on the disinvestment related matters; to take and implement decisions to disinvest in a transparent manner; and to ensure job security, opportunities for retraining and redeployment.

In pursuance of the Common Minimum Programme of the United Front, Government of India constituted a Public Sector Disinvestment Commission on 23rd August 1996, with the following board terms of reference:

- To draw a comprehensive overall long term disinvestment programme within 5-10 years for the PSUs referred to it by the core group.
- To determine the extent of disinvestment, indicate total/partial percentage in each of the PSU.
- To prioritize the PSUs referred to it by the Core Group in terms of the overall disinvestment programme.
- To recommend the preferred mode(s) of disinvestment (domestic capital markets/auction/private sale to identified investors/any other) for each of the identified PSUs. Also to suggest an appropriate mix of the various alternatives taking into account the market conditions.
- To recommend a mix between primary and secondary disinvestments taking into account Government’s objective, the relevant PSU’s funding requirement and the market conditions.
- To supervise the overall sale process and take decisions on instrument, pricing, timing, etc. as appropriate.
- To select the financial advisers for the specified PSUs to facilitate the disinvestment process.
- To ensure that appropriate measures are taken during the disinvestment process to protect the interests of the affected employees including encouraging employees’ participation in the sale process.
- To monitor the progress of disinvestment process and take necessary measures and report periodically to the Government on such progress.
- To assist the Government to create public awareness of the Government’s disinvestment policies and programmes with a view to developing a commitment by the people.
- To give wide publicity to the disinvestment proposals so as to ensure larger public participation in the shareholding of the enterprises
- To advise the Government on possible capital restructuring of the enterprises by the marginal investments, if required, so as to ensure enhanced realization through disinvestment.

In making its recommendations, the Commission is also required to take into consideration the interests of workers, employees and others. The final decision on the recommendations of the Disinvestment Commission vests with the Government. It made recommendations on 58 PSEs. The recommendations indicated a shift from public offerings to strategic/trade sales, with transfer of management.

In its first budgetary pronouncement (1998-99), the new Government decided to bring down Government shareholding in the PSUs to 26% in the generality of cases, (thus facilitating ownership changes, as was recommended by the Disinvestment Commission). It however, stated that the Government would retain majority holdings in PSEs involving strategic considerations and that the interests of the workers would be protected in all cases. The policy for 1999-2000, as enunciated by the Government in the Budget speech, was to strengthen strategic PSUs, privatize non-strategic PSUs through gradual disinvestment or strategic sale, and devise viable rehabilitation strategies for weak units. A highlight of the policy was that the expression ‘privatization’ was used for the first time.

Strategic & Non-strategic Classification: On 16th March 1999, the Government classified the Public Sector Enterprises into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the Strategic Public Sector Enterprises would be those
in the areas of arms and ammunitions and the allied items of defense equipment, defense air-crafts and warships; atomic energy except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture medicine and non-strategic industries; and railway transport. All other Public Sector Enterprises were to be considered non-strategic. Government stake going down to less than 51% or to 26%, would be taken on the following considerations: Whether the industrial sector requires the presence of the public sector as a countervailing force to prevent concentration of power in private hands, and whether the industrial sector should have a proper regulatory mechanism to protect the consumer interests before public sector enterprises are privatized.

The highlights of the policy for the year 2000-01 were that for the first time the Government made the statement that it was prepared to reduce its stake in the non-strategic PSEs even below 26% if necessary, that there would be increasing emphasis on strategic sales and that the entire proceeds from disinvestment/privatization would be deployed in social sector, restructuring of PSEs and retirement of public debt. The main elements of the policy were reiterated as follows: To restructure and revive potentially viable PSEs; to close down PSEs which cannot be revived; to bring down Government equity in all non-strategic PSEs to 26% or lower, if necessary; to fully protect the interests of workers; to put in place mechanisms to raise resources from the market against the security of PSEs’ assets for providing an adequate safety-net to workers and employees; to establish a systematic policy approach to disinvestment and privatization and to give a fresh impetus to this programme, by setting up a new Department of Disinvestment; to increasingly emphasis on strategic sales of identified PSEs; to use the entire receipt from disinvestment and privatization for meeting expenditure in social sectors restructuring of PSEs and retiring public debt.

The Budget Speech 2001-2002 expressed the intention to use the proceeds for providing restructuring assistance to PSUs; safety net to workers; reduction of debt burden; additional budgetary support for the plan, primarily in the social and infrastructure sectors (contingent upon realization of the anticipated receipt)
Address by the President of India to Parliament in the Budget Session, February, 2001, observed: the public sector has played a vital role in the development of our economy. However, the nature of this role cannot remain frozen to what it was conceived fifty years ago – a time when the technological landscape and the national and international economic environment were so very different. The private sector in India has come of age, contributing substantially to our nation-building process. Therefore, both the public sector and private sector need to be viewed as mutually complementary parts of the national sector. The private sector must assume greater public responsibilities just as the public sector needs to focus more on achieving results in a highly competitive market. While some public enterprises are making profits, quite a few have accumulated huge losses. With public finances under intense pressure, Governments are just not able to sustain them much longer. Accordingly, the Central as well as several State Governments are compelled to embark on a programme of disinvestment. The Governments’ approach to PSUs has a three-fold objective: revival of potentially viable enterprises, closing down of those PSUs that cannot be revived, and bringing down Government equity in non-strategic PSUs to 26 percent or lower.

The current direction of privatization policy is summarized in a statement laid in both the House of Parliament on December 9, 2002, Government has announced its policy that the main objective of disinvestment is to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our public sector enterprises. The policy disinvestment specifically aimed at: modernization and upgradation of Public Sector enterprises, creation of new assets, generation of employment, and retiring of public debt.

To ensure that disinvestment does not result in alienation of national assets, which, through the process of disinvestment, remain where they are. It will also ensure that disinvestment does not result in private monopolies by setting up a Disinvestment Proceeds Fund, formulating the guidelines for the disinvestment of national asset companies, and preparing a paper on the feasibility and modalities of setting up Asset
Management Company to hold, manage and dispose the residual holding of the Government in the companies in which Government equity has been disinvested to a strategic partner.

This is all about the history of privatization and now we can pursue the meaning and definition of privatization.

3:2:1 Meaning & Definition of Privatization

With the rise of conservative governments in Great Britain, the United States, and France, privatization has come primarily to mean two things: (1) any shift of activities or functions from the state to the private sector; and, more specifically, (2) any shift of the production of goods and services from public to private.\(^{11}\) Besides directly producing services, governments establish the legal framework of societies and regulate social and economic life, and they finance services that are privately produced and consumed. The first, broader definition of privatization includes all reductions in the regulatory and spending activity of the state. The second, more specific definition of privatization excludes deregulation and spending cuts except when they result in a shift from public to private in the production of goods and services.

The forms of privatization vary in the extent to which they move ownership, finance, and accountability out of the public sector. The spectrum of alternatives runs from total privatization (as in government disengagement from some policy domain) to partial privatization (as in contracting out or vouchers). The term, privatization may include policies anywhere along this spectrum; however, the implications of privatization vary with its degree. In cases of partial privatization, the government may continue to finance but not to operate services, or it may continue to own but not to manage assets. Privatization may, therefore, dilute government control and accountability without

eliminating them. Where governments pay for privately produced services, they must continue to collect taxes. Privatization in this sense diminishes the operational but not the fiscal or functional sphere of government action.

Privatization is the practice of delegating public duties to private firms. It is advocated as a means of shrinking the size of government, reducing deficits, and increasing efficiency in public services.\(^\text{12}\)

Privatization takes several forms in the United States: the selling of firms that were once partly owned and regulated by government; the contracting out of public services to private companies for production; and the funding of vouchers for use in the private sector thus introducing competition between public and private agencies.

A very broad term--but most simply, privatization is the transfer of assets or service delivery from the government to the private sector. Privatization runs a very broad range, sometimes leaving very little government involvement, and other times creating partnerships between government and private service providers where government is still the dominant player.\(^\text{13}\)

As an US Government Executive put it, merely defining "privatization" is difficult. In its purest form, the term refers to the shifting of the production of a good or the provision of a service from the government to the private sector, often by selling government-owned assets. Clinton Administration officials took this rather narrow view. "When we talk about privatization, we don't mean contracting out," said Elaine Kamarck, who headed


Gore's National Performance Review. "We mean purely divesting the government function."  

In a narrow sense, privatization implies the induction of private ownership in publically owned enterprises, but in broader sense, connotes besides private ownership (or even without change of ownership) the induction of private management and control in the public sector enterprises.

Privatization is the incidence or process of transferring ownership of a business, enterprise, agency or public service from the public sector (government) to the private sector (business). In a broader sense, privatization refers to transfer of any government function to the private sector including governmental functions like revenue collection and law enforcement.

Privatization (sometimes: denationalization or privatisation) is the economic process of transferring property, from public ownership to private ownership.

Privatization means transfer of ownership or management of an enterprise from the public sector to the private sector. It also means the withdrawal of the state from an industry or sector, partially or fully. Another dimension of privatization is opening up of an industry that has been reserved for the public sector to the private sector.

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“Privatization is the practice of offering shares in previously state-owned industries or enterprises for sale to the general public.”

Privatization is the repurchasing of all of a company's outstanding stock by employees or a private investor. As a result of such an initiative, the company stops being publicly traded. Sometimes, the company might have to take on significant debt to finance the change in ownership structure.

Privatization is the process of transforming property, businesses or natural resources (e.g., water) from public ownership or trust to private ownership and transferring the management of a service or activity from the government to the private sector. Corporate profits, not the good of the community or country, become the overriding concern.

Privatization is the process whereby functions that were formerly undertaken by government are delegated instead to the private sector.

Privatization is the act of turning previously government-provided services over to private sector enterprises.

Privatization is the process of converting a government-operated business to one that is privately owned. Privatization occurs by selling shares in the government-owned business to private shareholders such as individuals and institutional investors.

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Privatization is the transfer of government-owned or government-run companies to the private sector, usually by selling them.

Privatization is the conversion of a government-run enterprise to one that is privately owned and operated. The conversion is made by selling shares to individual or institutional investors.

Privatization is the act of returning state-owned or state-run companies back to the private sector, usually by selling them.\textsuperscript{21}

Barbara Lee and John Nell define the concept in this manner: “Privatisation is the general process of involving the private sector in the ownership or operation of a state owned enterprise. Thus the term refers to private purchase of all or part of a company. It covers ‘contracting out’ and the privatisation of management – through management contracts, leases, or franchise arrangements.”

Through these definitions we are able to get clarity about the privatization concept. Now it is always relevant to analyze the measures of privatization.

**3:2:2 Measures of Privatization**

The measures of privatization can take three forms like – ownership measures, organizational measures, and operational measures. The ownership measures are sets of measures which transfer ownership of public enterprises, fully or partially, leading to privatization. The higher the proportion of transfer of ownership to the individual, cooperative or corporate sector, the greater is the degree of privatization. Different forms


of ownership measures are: total denationalization, joint venture, liquidation and management buy-out. Here the total denationalization implies a complete transfer of ownership of a public enterprise to private hands. The joint venture implies partial introduction of private ownership. The range of private ownership can vary from 25 to 50 per cent or even more, depending upon the nature of the enterprise and state policy in this regard. The liquidation implies a sale of assets to someone who may use them for the same purpose or some other purpose depending upon the preference of the buyer. And management buy-out is a special version of denationalization. It implies sale of assets to the employees. For this purpose, appropriate provision of loans from banks is also made to enable employees to take over ownership. The employees may form a co-operative to run the enterprise. In this case, employees become entitled besides wages to ownership dividend.

Another measure of privatization is organizational measures. A number of organizational measures are conceived to limit state control. They include: a holding company structure, leasing, and restructuring. A holding company structure may be so designed that the government limits its control interventions to apex level decisions and leaves the operating companies within the arrangement to sufficient degree of autonomy in decision-making within the frame work of the market forces. Sometimes, a very big monolithic organization is split into smaller units without loss of economies of scale. Although smaller units comprise of a family, but they become independent in certain product lines or regional operations. A big organization like Bharat Heavy Electricals Ltd. may adopt the holding company status by transferring a number of functions to smaller units, thereby reducing centralized managerial functions. Leasing means a public enterprise while retaining ownership may lease out to a private bidder for a specific period for use. The Chinese government adopted the Asset Responsibility System (ARS) in which a tender becomes the general executive of an enterprise for a specified period of say 5 years. But before the appointment of the bidder is finalized, the tenders have to give an undertaking of the profits they would pass over to the state and also give a convincing set of measures that they propose to undertake in this regard. The government enjoys the right of obtaining profits as per agreement; on the other hand, tenure ownership is
expected to lead to improved efficiency or lower costs of operation. In case, a particular bidder fails to come up to the expectations of the government, the latter reserves the right to replace him with more promising bidder. And finally in restructuring, which bring public sector enterprises under market discipline, it would be desirable to go in for two forms of restructuring: a) financial restructuring can be affected in the sense that accumulated losses are written off and capital composition is rationalized in respect of debt-equity ratio. b) Basic restructuring may be affected by redefining the sets of commercial activities which the enterprise will undertake henceforth. It may shed off some activities to be taken up by ancillaries or small scale units.

The final measure of privatization is operational measures. These are intended to improve efficiency of the organization, even when full denationalization has not been undertaken. They, in fact, inject the spirit of commercialization in public enterprises. The measures include grant of autonomy to PEs in decision making, provision of incentives to blue-collar as well as white-collar employees consistent with increase in efficiency or productivity, freedom to acquire certain inputs from the market by a system of “contracting” instead of producing them within the enterprise, development of proper investment criteria, permitting PEs to go to the capital markets to raise funds etc. The basic purpose of these measures of operational privatization is to bring about a drastic reform to reduce government control over the enterprise.

These are the three noted measures of privatization. Now it is suitable and relevant to analyze types of privatization.

3:2:3 Types of Privatization
There are three main methods of privatization: (1) Share Issue Privatization (SIP) - Selling shares on the stock market is known as SIP. Share issue privatization is the most common type of privatization. Share issues can broaden and deepen domestic capital markets, boosting liquidity and potentially economic growth, but if the capital markets are insufficiently developed it may be difficult to find enough buyers and transaction costs (e.g. under pricing required) may be higher. For this reason, many governments
elect for listings in the more developed and liquid markets. (2) Asset Sale Privatization - Selling the entire firm or part of it to a strategic investor, usually by auction is known as asset sale privatization. As a result of higher political and currency risk deterring foreign investors, asset sales are more common in developing countries. And (3) Voucher Privatization - Shares of ownership are distributed to all citizens, usually for free or at a very low price.

A substantial benefit of share or asset sale privatizations is that bidders compete to offer the highest price, creating income for the state in addition to tax revenues. Voucher privatizations, on the other hand, could be a genuine transfer of assets to the general population, creating a real sense of participation and inclusion. If the transfer of vouchers is permitted, a market in vouchers could be created, with companies offering to pay money for them.

Other types of privatizations are: contracting out, management contracts, franchise, internal markets, commercialization, self-help, volunteers, corporatization, long-term lease private infrastructure development and operation, build-operate-transfer, build-transfer-operate, build-own-operate, and joint venture. In contracting out (also called "outsourcing") the government competitively contracts with a private organization, for-profit or non-profit, to provide a service or part of a service. In management contracts the operation of a facility is contracted out to a private company. Facilities where the management is frequently contracted out include airports, wastewater plants, arenas and convention centers. In franchise a private firm is given the exclusive right to provide a service within a certain geographical area. In internal markets departments are allowed to purchase support services such as printing, maintenance, computer repair and training.

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from in-house providers or outside suppliers.\textsuperscript{23} In-house providers of support services are required to operate as independent business units competing against outside contractors for departments’ business. Under such a system, market forces are brought to bear within an organization. Internal customers can reject the offerings of internal service providers if they don’t like their quality or if they cost too much. In commercialization (also referred to as "service shedding") government stops providing a service and lets the private sector assume the function. In self-help (also referred to as "transfer to non-profit organization") community groups and neighborhood organizations take over a service or government asset such as a local park.\textsuperscript{24} The new providers of the service also directly benefit from the service. Governments are increasingly discovering that by turning some non-core services—such as zoos, museums, fairs, remote parks and some recreational programs—over to non-profit organizations, they are able to ensure that these institutions don’t drain the budget. The volunteers are used to provide all or part of a government service. Volunteer activities are conducted through a government volunteer program or through a non-profit organization. In corporatization government organizations are reorganized along business lines. Typically they are required to pay taxes, raise capital on the market (with no government backing—explicit or implicit), and operate according to commercial principles. Government corporations focus on maximizing profits and achieving a favorable return on investment. They are freed from government procurement, personnel and budget systems. The next type of privatization is long-term lease. Here the government sells or enters into long-term leases for assets such as airports, gas utilities or real estate to private firms, thus turning physical capital into financial capital. In a sale-leaseback arrangement, government sells the asset to a private sector entity and then leases it back. Another asset sale technique is the employee buyout. Existing public managers and employees take the public unit private, typically purchasing the company


\textsuperscript{24} Titiloye Oyebanji, (2010, October 10). The Pros and Cons of Privatization. stoyebanji@yahoo.com.
through an Employee Stock Ownership Plan (ESOP).25 The next one is private infrastructure development and operation. The private sector builds finances and operates public infrastructure such as roads and airports, recovering costs through user charges. Several techniques commonly are used for privately building and operating infrastructure. In build-operate-transfer (BOT) arrangements, the private sector designs, finances, builds, and operates the facility over the life of the contract. At the end of this period, ownership reverts to the government. A variation of this is the build-transfer-operate (BTO) model, under which title transfers to the government at the time construction is completed. Finally, with build-own-operate (BOO) arrangements, the private sector retains permanent ownership and operates the facility on contract. Joint venture is another method utilized by government for transferring of ownership. This can be affected by the sale of equity. Three kinds of proposals have been put forward. First one is 25% ownership by the private sector and workers also to be included to the extent of 5% equity to be transferred to them. This creates veto power by the public sector against the private sector. The second one is government retains 51% equity and 49% equity to the private sector. And the final one is 74% of equity is transferred to the private sector and government retains 26% with the added provision of Government’s veto power and minority control over major corporate decisions.

These are different types of privatization, now we can discuss about the pros and cons of privatization.

3:2:4 Advantages of Privatization

The central government administration, and the voters who elect them, have difficulty in evaluating the efficiency of numerous and very different enterprises. A private owner, often specializing and gaining great knowledge about a certain industrial sector, can evaluate and then reward or punish the management in few enterprises much more

efficiently.

State-run industries tend to be bureaucratic. A political government may only be motivated to improve a function when its poor performance becomes politically sensitive, and such an improvement can be reversed easily by another regime.

One of the main arguments for the privatization of publicly owned operations is the estimated increases in efficiency that can result from private ownership. The increased efficiency is thought to come from the greater importance private owners tend to place on profit maximization as compared to government, which tends to be less concerned about profits.

A state-monopolized function is prone to corruption; decisions are made primarily for political reasons, personal gain of the decision-maker, rather than economic ones. Corruption in a state-run corporation affects the ongoing asset stream and company performance, whereas any corruption that may occur during the privatization process is a one-time event and does not affect ongoing cash flow or performance of the company.

Privately held companies can sometimes more easily raise investment capital in the financial markets when such local markets exist and are suitably liquid. While interest rates for private companies are often higher than for government debt, this can serve as a useful constraint to promote efficient investments by private companies, instead of cross-subsidizing them with the overall credit-risk of the country. Investment decisions are then governed by market interest rates. State-owned industries have to compete with demands from other government departments and special interests. In either case, for smaller markets, political risk may add substantially to the cost of capital.

A private business has the ability to focus all relevant human and financial resources onto specific functions. A state-owned firm does not have the necessary resources to specialize its goods and services as a result of the general products provided to the greatest number of people in the population.
Conversely, the government may put off improvements due to political sensitivity and special interests — even in cases of companies that are run well and better serve their customers' needs.

Managers of privately owned companies are accountable to their owners/shareholders and to the consumer and can only exist and thrive where needs are met. Managers of publicly owned companies are required to be more accountable to the broader community and to political "stakeholders". This can reduce their ability to directly and specifically serve the needs of their customers, and can bias investment decisions away from otherwise profitable areas.

A company controlled by the state may have access to information or assets which may be used against dissidents or any individuals who disagree with their policies.

A political government tends to run an industry or company for political goals rather than economic ones.

Governments have had the tendency to "bail out" poorly run businesses, often due to the sensitivity of job losses, when economically, it may be better to let the business fold.

Poorly managed state companies are insulated from the same discipline as private companies, which could go bankrupt, have their management removed, or be taken over by competitors. Private companies are also able to take greater risks and then seek bankruptcy protection against creditors if those risks turn sour.

The existence of natural monopolies does not mean that these sectors must be state owned. Governments can enact or are armed with anti-trust legislation and bodies to deal with anti-competitive behavior of all companies public or private.
Ownership of and profits from successful enterprises tend to be dispersed and diversified particularly in voucher privatization. The availability of more investment vehicles stimulates capital markets and promotes liquidity and job creation.

Nationalized industries are prone to interference from politicians for political or populist reasons. Examples include making an industry buy supplies from local producers (when that may be more expensive than buying from abroad), forcing an industry to freeze its prices/fares to satisfy the electorate or control inflation, increasing its staffing to reduce unemployment, or moving its operations to marginal constituencies.

Corporations exist to generate profits for their shareholders. Private companies make a profit by enticing consumers to buy their products in preference to their competitors' (or by increasing primary demand for their products, or by reducing costs). Private corporations typically profit more if they serve the needs of their clients well. Corporations of different sizes may target different market niches in order to focus on marginal groups and satisfy their demand. A company with good corporate governance will therefore be sensitive to meet the needs of its customers efficiently.

Proponents of privatization argue that whereas government producers have no incentive to hold down production costs, private producers who contract with the government to provide the service have more at stake, thus encouraging them to perform at a higher level for lower cost. The lower the cost incurred by the firm in satisfying the contract, the greater profit it makes. On the other hand, the absence of competition and profit incentives in the public sector is not likely to result in cost minimization. Of course, small- and mid-sized companies also need to make sure that they do not sacrifice an acceptable profit margin in their zeal to secure a contract. The major cause of the cost differences between the private and governmental sectors is employee productivity.

As the economy becomes more efficient, more profits are obtained, and when no government subsidies and less tax are needed, there will be more private money available
for investments and consumption and more profitable and better-paid jobs will be created than in the case of a more regulated economy.

Proponents of privatization state that private firms may be more likely to experiment with different and creative approaches to service provision, whereas government tends to stick with the current approach since changes often create political difficulties for elected officials. In addition, private firms may use retained earnings to finance research or to purchase new capital equipment that lowers unit production costs. On the other hand, government may not be able or willing to allocate tax revenues to these purposes as easily, given the many competing demands on the government's budget.

The basic argument given for privatization is that governments have few incentives to ensure that the enterprises they own are well run. On the other hand, private owners, it is said, do have such an incentive: they will lose money if businesses are poorly run. The theory holds that, not only will the enterprise's clients see benefits, but as the privatized enterprise becomes more efficient, the whole economy will benefit. Ideally, privatization propels the establishment of social, organizational and legal infrastructures and institutions that are essential for an effective market economy.

Supporters of privatization often cite the competitive environment that is nourished by the practice as a key to its success. Private owners have a strong incentive to operate efficiently, they argue, while this incentive is lacking under public ownership. If private firms spend more money and employ more people to do the same amount of work, competition will lead to lower margins, lost customers, and decreased profits. The disciplining effect of competition does not occur in the public sector. Still, even advocates of privatization agree that private ownership produces the public benefits of lower costs and high quality only in the presence of a competitive environment. Privatization cannot be expected to produce these same benefits if competition is absent. Given this reality, analysts strongly encourage municipal governments to make sure that the bidding process is an ethical one.
Other reasons for strongly recommending Privatization are: privatization reduces the fiscal burden of the State by relieving it of the losses of the SOEs and reducing the size of the bureaucracy, privatization of SOEs enables the government to mop up funds, privatization helps the State to trim the size of the administrative machinery, privatization enables the government to concentrate more on the essential State functions, privatization helps accelerate the face of economic development as it attracts more resources from the private sector for development, privatization may result in better management of the enterprises, privatization may also encourage entrepreneurship, privatization may increase the number of workers and common man who are shareholders, privatization could make the enterprises subject to more public vigilance, privatization could mean end to a regime of “licenses” and “monopolies” and thereby ensure that there is no concentration of wealth, private company is less susceptible to political maladministration and corruption, and governments cannot react as quickly as private players to changing dynamics.

In all these arguments in favour of privatization, the common threads that are going through almost all these factors are unnecessary political interference and welfare nature of the state. Governments do not have an apparent vested interest in running government companies well. They can generate revenue, take loans at minimal rates and also generate funds from other companies if they need it. But this may cost the government its popularity. Similarly, popularity is lost when the government freezes assets that were otherwise productive to cover losses accruing because of a loss-making government company. Therefore it is found better to shift the burden on to a private player who may be able to utilize the resources to their maximum possible potential or, in any case, better than the government.26

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3:2:5 Disadvantages of Privatization

Critics of privatization point out that the essential mandate of government is to work in the public interest, while that of private enterprise is to maximize profits; thus ideologically, public services are best handled by government. Others argue privatization disproportionately hurts minority populations because they tend to rely more heavily on employment in the public sector. When such jobs move to the private sector, workers often receive lower wages and fewer benefits.

Furthermore, opponents of privatization argue that it is undesirable to transfer state-owned assets into private hands for the following reasons:

- A democratically elected government is accountable to the people through a legislature, Congress or Parliament, and is motivated to safeguarding the assets of the nation. The profit motive may be subordinated to social objectives.
- The government is motivated to performance improvements as well run businesses which contribute to the State's revenues.
- Government ministers and civil servants are bound to uphold the highest ethical standards, and standards of probity are guaranteed through codes of conduct and declarations of interest. However, the selling process could lack transparency, allowing the purchaser and civil servants controlling the sale to gain personally.
- The public does not have any control or oversight of private companies.
- A democratically elected government is accountable to the people through a parliament, and can intervene when civil liberties are threatened.
- The government may seek to use state companies as instruments to further social goals for the benefit of the nation as a whole.
- Governments can raise money in the financial markets most cheaply to re-lend to state-owned enterprises.
- If a government-owned company providing an essential service (such as the water supply) to all citizens is privatized, its new owner(s) could lead to the abandoning of the social obligation to those who are able to pay less, or to regions where this service is unprofitable.
Privatization will not result in true competition if a natural monopoly exists.

Profits from successful enterprises end up in private, often foreign hands instead of being available for the common good.

Governments may more easily exert pressure on state-owned firms to help implementing government policy.

Private companies often face a conflict between profitability and service levels, and could over-react to short-term events. A state-owned company might have a longer-term view, and thus be less likely to cut back on maintenance or staff costs, training etc, to stem short term losses. Many private companies have downsized while making record profits.

Private companies do not have any goal other than to maximize profits. A private company will serve the needs of those who are most willing (and able) to pay, as opposed to the needs of the majority, and are thus anti-democratic. The more necessary a good is, the lower the price elasticity of demand, as people will attempt to buy it no matter the price. In the case of price elasticity of demand is zero (perfectly inelastic good) demand part of supply and demand theories does not work.

It is acknowledged by many studies that there are winners and losers with privatization. The number of losers—which may add up to the size and severity of poverty—can be unexpectedly large if the method and process of privatization and how it is implemented are seriously flawed.

Due to the additional financial burden placed on privatized companies to succeed without any government help, unlike the public companies, jobs could be lost to keep more money in the company. In some cases, privatization results in layoffs of public sector employees, although governments often reassign them to other government jobs, place them with private contractors, or offer them early retirement programs. These possibilities have been particularly upsetting to public employee unions, which have been at the forefront of efforts to block privatization.

A centralized enterprise is generally more cost effective (due to economics of scale) than multiple smaller ones. Therefore splitting up a public company into smaller private chunks will reduce efficiency.
• Privatization many a time result in the acquisition of national firms by foreign firms and privatization of profitable enterprises. There are well managed and ill managed firms both in the public and private sectors; and privatization in many instances is a half-hearted measure and therefore if it is not properly carried out, the result would be that the expected results may not be achieved.

• It may be seen that the controversy that surrounds privatization is essentially a question of welfare of the people. While nationalization (meaning taking over of control by the government of a certain industry) has traditionally been a tool in the hands of the state to regulate an industry for maximizing common good, privatization has been used to further efficiency and maximize profits. A fair decision about a need of privatization inevitably depends upon the circumstances of each state and also the company in question.

Through above furnished details we get a clear idea about privatization and now it is necessary to analyze the concept called attitude.

### 3:3 Attitude

Attitude is considered by some psychologists as a first principle in social behaviour. According to tradition in social psychology, attitudes are forerunners of behaviour. An attitude is a predisposition to respond in a certain way. But this term, one of the most widely used in all of psychology, has developed diverse meanings. Some psychologists study attitudes only in terms of overt behaviour; if a person persist in a certain activity, he or she has favourable attitude toward it. An attitude has three basic components: thinking, feeling, and acting.

The first component involves a thought or belief about something. Perhaps you believe that a heavy briefcase, especially if carried always on one side can lead to problems in the lower back, or that frosting is harmful to the hair. The second component concerns

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feelings. Most probably you are prevented by lower back pain and unhealthy hair. And third, there is a reaction tendency; you avoid carrying a briefcase or having frosted hair. The attitude is thus reflected in your obvious behaviour. Or you may have decided that the frosting techniques are not harmful. Furthermore, you are attracted to frosted hair. The behavioural result is that you use this style in your personal preparing and perhaps urge others to do so. These three components are also described as the cognitive, affective, and behavioural components of an attitude, respectively. Attitudes structure can be described in terms of these three components:

1. **Affective Component:** this involves a person’s feelings / emotions about the attitude object. For example: “I am scared of spiders”.

2. **Behavioral (or Conative) Component:** the way the attitude we have influences how we act or behave. For example: “I will avoid spiders and scream if I see one”.

3. **Cognitive Component:** this involves a person’s belief / knowledge about an attitude object. For example: “I believe spiders are dangerous”.

The three components of attitude described above constitute, what is called, the ABC model of attitude, the three letters respectively standing for affect, behaviour and cognition. Each of them is related to one of the fundamental ways in which attitudes apparently are formed and changed.

It is fruitful to bring out the salient features which contribute to the meaning of attitudes. The following are the six features: attitude refers to feelings and beliefs of individuals or groups of individuals; the feelings and beliefs are directed towards other people, objects or ideas; attitudes tend to result in behaviour or action; attitudes can fall anywhere along a continuum from very favourable to very unfavourable; attitudes endures; and all people irrespective of their status or intelligence hold attitudes.

For providing more clarity towards this concept called attitude the researcher here deals with some of the famous definitions.
“The word attitude describes a persistent tendency to feel and behave in a particular way towards some object.”

“An attitude is mental state of readiness, learned and organized through experience, exerting a specific influence on person’s response to people, object and situations with which it is related.”

“Attitudes are evaluative statements either favourable or unfavourable concerning objects, people, or events. They reflect how one feels about something.”

“Attitudes are learned predispositions towards aspects of our environment. They may be positively or negatively directed towards certain people, service or institutions.”

“By attitudes we mean the beliefs, feelings and action tendencies of an individual or group of individuals towards objects, ideas and people. Quite often persons and objects or ideas become associated in the minds of individuals and as a result attitudes become multi-dimensional and complex.”

Attitudes represent our hidden feelings of favourability or unfavourability toward an object, person, issue, or behavior. Formally, attitude is defined as “a learned predisposition to response in a consistently favorable or unfavorable manner with respect to a given object.”

Now we have a clear idea about the concept called attitude. For delivering deeper on this concept, the researcher has also considered various types of attitude and its development.

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Individual possess hundreds of attitudes, but here the concern is with work related attitudes which are mainly three: job satisfaction, job involvement and organizational commitment. Job satisfaction refers to one’s feeling towards one’s job. An individual having satisfaction is said to possess positive attitude towards the job. Conversely, dissatisfied person will have negative attitude towards his or her job. When people speak of employee attitudes they invariably refer to job satisfaction. The second type of attitude is job involvement. It refers to the degree with which an individual identifies psychologically with his or her job and perceives his or her perceived performance level important to self worth. High degree of job involvement results in fewer absences and lower resignation rates. And the last job attitude refers to organizational commitment. It is understood as one’s identification with his or her organization and feels proud of being its employee. Job involvement refers to one’s attachment to a job whereas organizational commitment implies an employee’s identification with a particular organization and its goals. It is needless to state that an individual may be attached to his or her job but may be indifferent to the organization and its objectives. Turnover and absenteeism are low when employees have organizational commitment.

3:3:1 Developing Attitude

Most of us have many different attitudes, but how are they formed? How do they originate? The obvious answer is that they come initially from contacts with our parents, early teachers, and other adults. Later in life peers and friends are highly influential. But the basic question still stands. By what processes do attitudes develop?

Individuals acquire attitudes from several sources but the point to be stressed is that the attitudes are acquired and not inherited. The most important sources of acquiring attitudes

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are direct experience with the object, association, family, neighbourhood, economic and social positions, and mass communication.\textsuperscript{30}

Attitudes can develop from a personally rewarding or punishing experience with an object. Employees form attitudes about jobs on their previous experiences. For example, if everyone who has held a job has been promoted within six months, current job holders are likely to believe that they will also be promoted within six months. Attitudes formed on experience are difficult to change.

One of the basic processes underlying attitude formulation can be explained on the basis of learning principles. The same classical conditioning processes that made Pavlov’s dog salivate at the sound of a bell can explain how attitudes are acquired. People develop association between various objects and the emotional reactions that accompany them. For instance, many soldiers who were sanctioned in the Persian Gulf during the war with Iraq reported that they never wanted to sit in a sandy beach again. Put another way, the soldiers formed negative attitudes towards sand. Similarly, positive associations can develop through classical conditioning. We may come to hold a positive attitude towards a particular perfume because a favourite model uses it. Suppose that a mother who wears frosted hair is also kind and helpful to her child. Through this pairing of frosted hair with being fed, helped, played with and so forth, eventually the child develops a positive attitude towards frosted hair. Associated with good outcomes, this event becomes favourable too. You may recognize this process as classical conditioning.

In one investigation the names for various nationalities – German, Swedish, French, and Dutch – were paired with positive, negative, or neutral terms. For some subjects “Dutch” was paired with “gift,” “sacred,” and “happy,” whereas “Swedish” was paired with “bitter,” “ugly,” and “failure.” For other subjects the pairings were reversed, and for still others these nationalities were paired with neutral terms. When an attitude questionnaire

\textsuperscript{30} Sheeba Rehman, (2008, Nov. 1). \textit{How to Stay in a Work Environment}, Noida: Faculty - IMS.
was administrated later, it was found that each nationality was perceived as positive, negative, or neutral depending on its previous associations. More recent investigations have supported this research, and today there is abundant evidence of the role of classical conditioning in the formation of attitudes and other emotional reactions.\textsuperscript{31}

Another learning process, operant conditioning also underlies attitude acquisition. Attitudes that are reinforced, either verbally or non-verbally, tend to be maintained. Conversely, a person whose attitude obtains ridicule from others may modify or abandon the attitude. But it is not only direct reinforcement or punishment that can influence attitudes.

Suppose a woman in the front row wears frosted hair one day, for whatever reason. Her roommate is delighted and her friends make complaints about her hair. This behaviour of wearing frosted hair has been reinforced, and it is likely to reappear. The process here, as you perhaps realize, is operant conditioning, for behaviours that produce positive consequences tend to be repeated.\textsuperscript{32}

A person learns something through the observance of others, can also account for attitude development – particularly when the individual has no direct experience with the object about which the attitude is held. It is through vicarious/sensational learning processes that children pick-up the prejudices of their parents.\textsuperscript{33} For example even if they have never met a blind person, children whose parents say that “blind people are incompetent” may adopt such attitudes themselves. A small girl was told that she would have tapioca for


lunch. She replied: “I don’t like that.” Then she asked, “What is it?” Later it was discovered that she had been told by her older sister that tapioca has a disagreeable taste. We also learn attitudes vicariously through television, films and other media.

A person may learn attitudes through imitation of parents. If parents have a positive attitude towards an object and the child admires his parents, he is likely to adopt a similar attitude, even without being told about the object, and even without having direct experience. Attitudes towards the opposite sex, religion, tolerance or prejudice, education, occupations, political parties, and almost all other areas where attitudes are capable of expression are the result of our accepting or rejecting the attitudes held by members of our family. Similarly, attitudes are acquired from peer groups in colleges and organizations.

The neighbourhood we live in has a certain structure in terms of its having cultural facilities, religious groupings, and possibly ethnic differences. The neighbours – adults or children – tolerate, overlook, or deny certain attitudes and behaviour and as a result we are either northerners or southerners.

Further, we accept these moves and conform, or we deny them and possibly rebel. The conformity or rebellion in some respects is the evidence of the attitudes we hold.

Our economic and occupational positions also contribute to attitude formation. They determine, in part, our attitudes towards unions and management and our belief that certain laws are “good” or “bad”. Our socio-economic background influences our present and future attitudes.

All varieties of mass communications – television, radio, newspapers and magazines – feed their audiences large quantities of information. The presentation of news or information is constructed so as to provide to the attitude of the audience. In turn, the audience selects the specific form of mass communication that best reflects its attitudes on various subjects. The items of interest include sex, teenagers, crime, divorce, politics,
religion, pornographic literature, and the like. The materials we select help us either to prove our opinions or to establish new ones.

In all of these examples there is still another possibility. People we admire, whether they are siblings, parents, friends, or public figures, can influence our attitudes simply by acting as models. Children who observe elders happily eating grasshoppers are inclined to look favourably on eating grasshoppers, too. Those who observe adults seeking the company of strangers probably will have positive attitude toward strangers. In this process, called modeling, one person follows the example of another. Modeling has been influential in developing attitudes toward a wide range of issues, from alcohol to hypnosis.

The above details provide clarity towards development of attitude. For more idea about attitude, the researcher further deals with the important functions and measurement of attitude.

3:3:2 Functions and Measurement of Attitude

Why do we hold on to certain attitudes towards individuals or objects? It is because these attitudes help us respond to the individuals or objects in a meaningful way. According to Katz, attitude serves four important functions: Utilitarian, Ego-defense, Value expressive, and Knowledge.\(^{34}\)

An attitude may develop because either the attitude or the object of the attitude is instrumental in helping one to obtain rewards or avoid punishments. In some cases the attitude is a means to an end.\(^{35}\) A worker finds that when he expresses a negative attitude


\(^{35}\) Bullough, E. (1912), "'Psychical Distance' as a Factor in Art and an Aesthetic Principle," *British Journal of Psychology*, 5, 87-118.
towards his boss, his coworkers pay attention to and sympathize with him, but when he expresses a positive attitude, he is ignored or censured. The negative attitude is instrumental in obtaining rewards (acceptance) and avoiding punishment (rejection). In another case, the object is a means to an end, and the attitude develops from association of the object and its outcome.\footnote{Frank Van Overwalle, and Frank Siebler, (2005), “A Connectionist Model of Attitude Formation and Change,” \textit{Personality and Social Psychology Review; Lawrence Erlbaum Associates,} 9(30, 231–274.}

People often form and maintain certain attitudes to project their own self-images. For example, workers may feel threatened by the employment or advancement of minority or female workers in their organization. These threatened workers may develop prejudices against the new workers. They may develop an attitude that such newcomers are less satisfied, and they might mistreat these workers. Such an ego defensive attitude\footnote{Hogg, M., & Vaughan, G. (2005). \textit{Social Psychology (4th edition). London: Prentice-Hall.}} is formed and used to cope with a feeling of guilt or threat. Unless this feeling is removed, this kind of attitude will remain unchanged.

Our attitude reflects our value systems. And our value expressive attitudes are closely related to our self-concept. For one whose central value is freedom, the individual may express very positive attitudes towards decentralization of authority in the organization, flexible work schedules and relaxation of dress standards.

Attitude is often substituted for knowledge. In the absence of knowledge, we use our attitude to organize and make sense out of the perceived object or person. For example, people who are not familiar with nuclear energy may develop an attitude that it is dangerous and should not be used as an energy source. Stereotyping is another example. In the absence of knowledge about a person, we may use a stereotyped attitude for judging the person.
Next, the researcher will analyze the method utilized for measuring attitude. The most common method utilized for measuring attitude is attitude scale. Typically an attitude scale is constructed according to the Likert method, in which different statements concerning the issue are assembled, each one accompanied by a scale of three to seven intervals ranging from extremely negative form to extremely positive. The subjects indicate their attitude toward each statement by making a position on the scale.

Suppose that the man with the briefcase has smiled several times at the woman in the front row. We can assume that he has a positive attitude toward her, which probably would be reflected on a Likert scale, unless he cared to disguise his feelings. Likert scales are relatively easy to construct and to score, but they also can be readily faked, if the subject desires to do so. Certain physiological measures, such as heart rate, skin conductance, and even papillary changes, also can indicate attitudes. If the man’s heart beats, palms grow wet, and eyes become “big as saucers,” we might assume that he has a positive attitude toward the woman with the frosted hair. With proper instruments these changes can be measured quite accurately.

But there are problems here, too. The beating heart and sweating palms indicate that the reactions are a strong one, but on this basis alone we do not know whether it is positive or negative. The man might be fearful, perhaps through some prior instance of conditioning. Second, there are large individual differences in emotional expression. Some people, when aroused, experience a beating heart; others develop sweaty palms; and still others show neither response, but the voice rises instead.

3:3:3 Changing Attitude
As a rule, attitudes are changed in much the same way that they are formed in the first place. Direct instruction, classical and operant conditioning, and modeling all have been found useful. More specifically, we might say that attitudes are formed and changed by many of the same processes used in therapy.
Attitude change is "a change in one of the dimensions of attitude (cognitive, conative, and affective) will often lead to a change in others because of the pervasive tendency to resolve and overcome the resulting cognitive inconsistency".

In general, the probability of attitude change varies inversely with the level of involvement. Attitudes are easy to change when existing information is small. Attitudes having centrality are most difficult to change. Centrality and self-concept are directly related and therefore at the core of our personality. Attitudes, highly interconnected are more resistant to change.

"It may be concluded that there is a positive, linear relationship between message disagreement and attitude change when the message is attributable to a highly credible source". Generally speaking, it is easier to achieve attitude change when the source is trustworthy and/or an expert in the related field.

Attitude change is also closely connected to cognitive dissonance theory which states, simply that employees attempt to reduce the distance or discomfort between their feelings or attitude and a much different presented attitude. A clash between one’s own point of view and input of voluntary information perceived as highly different will cause the employees to either change their attitude or to reduce the credibility of the expert source.

It is also important to mention that attitude change is best achieved by successive exposures, each of which covers a small inconsistency.

A young man was fearful of people whom he did not know well, and sweated generously in their presence. Another young man felt “no good to anybody,” which certainly is a negative attitude towards oneself. Various forms of therapy were used in attempts to change the attitudes of these individuals.


We shall see that direct instruction may be a most efficient method for changing attitudes in a large group of people, but the degree of audience involvement is a critical factor in success. Passive listeners are less likely to change than are people who participate in discussions and express their own views. In the mass media, modeling is also prominent technique, especially in advertising.

When attitudes have a strong emotional component, they may be exceedingly difficult to change, especially if they serve an important function in the personality. Certain prejudices, for example, can play central role in the personality structure, as in the authoritarian personality, characterized by negative attitudes toward minority groups and toward unconventional behaviour.

Now we can deal with different types of Attitude Change Models. The first model – Kelman’s Processes of Opinion Change Model\textsuperscript{40} is important and relevant because of the social influence of persuasive communication. There are three processes to Kelman’s Model: 1.) compliance, where the subject accepts influence from another person or group for a favorable reaction, 2.) identification, where the subject or audience adopts behavior for self-satisfaction, and 3.) internalization, where the subject or audience accepts influence congruent to their value system.

The next model – Information Integration Approach\textsuperscript{41} is the model of the nature of attitudes and attitude change. This approach suggests all information has the potential to influence attitude. The degree of influence depends upon two variables: 1.) valence or


individual judgment about whether or not the influence is positive or negative, and 2.) weight, the degree to which attitude is influenced.

Fishbein offers a complex and interactive nature of attitudes in Expectancy Value Theory. He suggests there are two kinds of belief: 1.) belief in a thing where belief possesses a high probability of existence, and 2.) belief about a relationship between object and other quality.

Another one is Persuasive Communication and Attitude Change. As mentioned earlier, there are several ingredients for effective persuasive communication with regard to attitude change. First, the source must be credible. Second, it is implied that a message should be repetitive to be effective. Known as the sleeper effect, researchers have found that a persuasive message may have a greater delayed impact than initial effect on consumer attitudes.

These are the important models of attitude. Next we can analyze the barriers or obstacle to attitude change. One obstacle to the change of attitude is the attitude theory of balance and consistency. That is, human beings prefer their attitudes about people and things to be in line (i.e. balanced, consistent) with their behaviours towards each other and objects. When attitudes or behaviours are not consistent, people usually seek to reduce the inconsistency rewarding internally. Leon Festinger has developed a theory in support of attitude consistency called cognitive dissonance. Festinger’s theory states that dissonance makes an individual feel uncomfortable. This feeling makes the individual try to reduce dissonance.

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Cognitive dissonance also occurs when a person behaves in a fashion that is inconsistent with his or her attitudes. For example, a person may realize that smoking and over eating are dangerous, yet continue to do both. Because the attitudes and behaviours are not consistent with each other, the person probably will experience a certain amount of tension and discomfort and may engage in dissonance reduction, seeking ways to reduce the dissonance and tensions it causes. The dissonance associated with smoking might be resolved by rationalizing, “just a pack a day will not affect my health”, or “I can quit when I have to”. With regard to overeating, the person may decide to go on a diet “next week”. In general, the person attempts to change the attitudes, alter the behaviour, or perceptually distort the circumstances to reduce the tensions and discomfort.

In the organizational setting cognitive dissonance occurs when an employee desires to leave the present job as there is no use in continuing and working hard. The individual may rationalize his or her stay with such explanation as, “organization is not bad after all”, or “what is the alternative?”

The second barrier to change of attitudes is prior commitments. This occurs when people feel a commitment to a particular cause of action and are unwilling to change.

The third barrier results from insufficient information. Sometimes people see no reason why they should change their attitudes. The boss may not like a subordinate’s negative attitude, but the latter may be quite pleased with his behaviour. Unless the boss can show the individual why a negative attitude is detrimental to career progress or salary increases or some other personal objective, the subordinate may continue to have negative attitude.

These are the main hindrance towards attitude change. Here the researcher is considering the various methods for overcoming these type obstacles. The first method is providing new information. It will help to change attitudes. Negative attitudes are mainly formed due to lack of or insufficient information. Workers generally become pro-union because of the ignorance about the good intentions of the management. Once they come to know
how the management cares for the welfare of the workers, they change their attitude and might turn pro-management.

Another way for changing attitude is use of fear. Fear can change attitude. However the change depends on the degree of fear. For example, if low levels of fear arousal are used, people often ignore them. The warnings are not strong enough to deserve attention. If moderate levels of fear stimulation are used, people often become aware of the situation and will change their attitudes. However, if high degrees of fear stimulation are used, people often reject the message, because it is too threatening and thus not believable. On the contrary, high degrees of fear may prove counter productive. On being threatened too far, people tend to become stubborn in their attitudes and may refuse to change.

The next one is influence of friends & peers. Change of attitude can come about through influence of friends or peers. Reliability of the others, especially peers, is important to effect change. Peers with high reliability shall exercise significant influence on change. The same is not true with peers who have low reliability.

Co-opting is another way of changing attitude. This means taking people who are dissatisfied with a situation and getting them involved in improving things.

The individual from a culturally underprivileged environment, who holds a display of unfriendly attitudes, may change when he is given opportunities for education. A person from a privileged subculture, who has always held to a democratic attitude, may become negative towards some group because of one unfortunate experience. Again, through continued association with others holding similar attitudes, one can be influenced in a positive or negative direction. Here the attitudes of both the reference group and the social climate are important.

3:3:4 Importance of Employees’ Attitude in Management

Employee attitudes are important to management because of their influence on behaviour, perception, job-satisfaction, job involvement, and organizational commitment.

Attitudes affect employee behaviour. However, a direct relationship between attitudes and actions is not agreeable to some, since attitude does not lead to any specific action. For example, a manager may dislike certain people in minority groups, but he may nevertheless treat them fairly and pleasantly in his office. This inconsistency occurs because the manager does not allow his attitude to interfere with his professional judgement. However, these attitudes may permeate themselves in other behaviour. For example, the manager may treat the minority workers fairly on the job but not invite them to his son’s or daughter’s marriage.

Although the influence of attitudes on behaviour is not clearly visible, two theories, viz., cognitive dissonance and self fulfilling prophecy, help us to understand the direction of attitudinal influences.

As mentioned earlier, cognitive dissonance refers to the feeling of inconsistency in feelings, beliefs, and behaviour. This feeling of inconsistency makes people feel uncomfortable. They get motivated to rectify the situation by modifying the behaviours that cause the dissonance.

Cognitive dissonance will be more intense when any of the following conditions exist: the decision is an important one psychologically or financially, there are a number of foregone alternatives, and the foregone alternatives have many positive features.

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Typically, an individual will try to minimize the dissonance by using any of the four methods. The methods are: The individual seeks information that confirms the wisdom of the decision; the individual selectively perceives (distorts) information in a way that supports the decision; the person adopts a less favourable attitude towards the foregone alternatives; and the person downplays the importance of any negative aspects of the choice and magnifies the positive elements.

The self fulfilling prophecy is the process by which we try to convert our attitudes, beliefs, and expectations into reality. If we predict that something is going to happen, we will try very hard to make it happen. For example, if we feel that we are competent, we will undertake challenging tasks.

Consequently we gain experience and skills that make us more competent, so that we accomplish even more. However, if we have a negative attitude towards ourselves, we will not provide ourselves with the chance to become competent.

Next we can see the attitudinal influence on perception. Perceptual outcomes are derived from past experiences and perceptions, but they also influence the way we perceive stimuli. Such sayings as “Beauty is altogether in the eye of the beholder” and “One person’s waste is another person’s treasure” emphasize the importance of attitudes in perceiving the world around us. If our attitudes are positive, things will look brighter to us than if they are negative.

One of the tasks of managers is to provide satisfaction to employees from their respective jobs. The term job-satisfaction refers to an individual’s general attitude towards his job. A person with job-satisfaction holds a positive attitude towards his job, while a person who is dissatisfied with his job holds a negative attitude about his job. When people speak of employee attitudes more often than not they mean job-satisfaction. In fact, the two terms are used interchangeably.
The term job involvement refers to the degree to which a person identifies psychologically with his job and considers his perceived performance level important to his self worth. A person with high degree of involvement will identify with his job and will care about the kind of work he does on his job. Besides, such involvement in the job results in reduced absenteeism and minimized absenteeism. Needless to say that attitude is an important variable in developing job involvement.

If job involvement refers to one’s identification with a particular job, organizational commitment means one’s involvement with his employing organization. Being another name for organizational loyalty, organizational commitment results in a stable workforce. As with job involvement, attitude is an important variable in determining organizational commitment.

The behaviour of people is based on attitudes. Positive attitude result in positive behaviour and vice versa. Management should develop positive attitudes among employees in view of positive relationship between attitudes and behaviour.

Through this analysis the researcher is able to understand the influences of HR practices in the formation of employees’ attitude towards privatization. Therefore the researcher compared HR practices of selected government and private sector establishments in the following chapter.