

1. INTRODUCTION

The privatisation of public utility services such as telephone, water and electricity has taken place in most developed and developing countries since the late 1970s. However, the cost and technology to run these businesses have been too much for most governments to burden that the transitional change of the services from being publicly state-owned to privately company-run has been viewed as the most logical choice. It is not surprising that the wave of privatisation has swept through leading countries like the UK, Germany and Japan, the developing east-Asian countries, and until recently, the less developed African continent and the post-communist block of Central and Eastern Europe.

From the early experimentation days of privatisation, taking root in Great Britain, the proven programmes have now reflected changes in government ideology, economic thinking and policies. They are normally part of broader programmes of stabilization, deregulation and structural reform of the existing systems. While relieving the restraints of government budget financing, these programmes are also meant to substitute market discipline from the previous static development markets to a more free economics and liquid capital markets.

Privatisation has also been looked upon as a mechanism to exert efficiency-enhancing effects. Privatisation of public utility services, in particular, should produce a sounding impact on quality and the level of service. However, the scenario is somewhat different when the utility companies, which are usually monopolies in their own rights, are price capped and highly regulated, thus creating an effect on quality. But price and quality alone should not be use to measure the success of privatisation. As JM Barry Gibson, group retail director of British Airports, said, 'the secret of success lies in the way privatisation has shaken up the corporate culture and made public servants,

who had no incentive to serve their customers into effective managers. They should be willing to take risks in order to run their operations more effectively and make a profit' (Gibson, 1997).

On a similar note, the private ownership of large public utilities with dominant market positions has raised important questions concerning the appropriate form of regulation and the right post-privatisation industry structure. Some have argued for the removal of monopoly or near-monopoly status of privatised utilities (Hunt and Lynk, 1991) whereas others have advocated the injection of competitive pressures, the liberalisation of markets and the reduction of institutionally-erected entry barriers (see Beesley and Laidlaw, 1989).

Thus, in summary, lies the question of how far would privatisation go? It is now a widely held view that the government should not be the owner of competitive sectors such as the financial and industry services. But the opinion is more divided when it comes to public utility services. Some would argue that these sectors are natural monopolies which should be government owned in order to avoid the abuse of monopoly power. Others would maintain that given a right regulation framework, there is no reason why these sectors should not be privately owned. In part, reflecting this difference in thinking, public ownership of utilities varies markedly across different countries. It should be noted that the issue of public ownership and privatisation is also part of the wider discussion on corporate governance (Financial Market Trends, 1996).

1.1 Objectives

The objective of this study is to determine the success and failure of the sewerage privatisation in Malaysia. It will look into the impact the privatisation has brought about on the government, the economy, the

environment and the society at large. It will examine the progress made and developments that have been achieved in the industry as a result of the privatisation as well as the problems and setbacks faced from the privatisation.

The Strengths, Weaknesses, Opportunities and Threats of the privatisation from the management perspective, will be deliberated. In the end, it is hoped that this study can be used as a reference document to understand if the existence of Indah Water as the private company is justifiable and whether the government has made the right decision in privatising the sewerage services in the country. The success and failure rate of the privatisation that will be presented in this study may be used to answer these questions.

1.2 Scope and Limitations Of The Study

The topic on privatisation is obviously wide and often been a debatable subject. However, this study will be confined to the research topic i.e. by focusing on the success and failure of the sewerage privatisation. This will be a descriptive research, academically inclined. This study will be based on secondary data vis-à-vis printed materials, journals, published and unpublished articles, ministry reports and press releases. Interviews with key management personnel of Indah Water were also conducted to gain insight information to the topic. Finally, there is also data collection and collation of internal and external surveys and findings, both from internal and external sources, aimed to access the acceptance level of the consumers towards the privatisation.

The scope of this study starts with a summary on the evolution of the privatisation, both internationally and locally, with a culmination towards

sewerage services privatisation in Malaysia. A primary study on Indah Water, as the private utility company, is made, by looking at the impacts of the privatisation on a wide spectrum, the consumer perception, the problems as well as future challenges of the privatisation. The UK Water and Sewerage privatisation is also compared, in order to understand better the similarities, differences and deficiencies of our local sewerage privatisation. Proposals will be presented at the end as recommendations to cut down on the failures and improve on the success factors.

In coming up with the study; however, there are several limitations. First, there is no previous record to compare with. Unlike the privatisation of the telephone and electricity, Indah Water only came into existence with the government's decision to privatised the sewerage industry. As such, a comparison to see the difference between before and after privatisation cannot be made. Second, due to the monopoly nature of the industry, there are no other competitive companies operating within the same industry, thus a direct comparison is not possible. Though, comparisons can be made with sewerage privatisation in other companies, the result may not be conclusive as conditions and environmental factors may differ. Finally, unlike most other privatisation, Indah Water is not a public listed company and performance cannot be measured in terms of revenue gain.

Thus, with the presence of the above limitations, it should be noted that a study of this nature is not easy and the findings can at times be subjective.