OUTCOMES OF LIBERALIZATION AND THEIR EFFECTS ON FINANCIAL PERFORMANCE OF POSTAL SERVICES IN KENYA

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ABSTRACT

The outcomes of liberalization have affected developing countries both positively and negatively and this can be seen particularly to state owned enterprises. Today the Postal industry finds itself undergoing major changes. Increasing competition, new customer expectations, technological advances and internationalization of business are creating enormous challenges for this essential service sector. The winds of change that have significantly changed Postal systems in many countries are now reaching less developed countries as the Postal marketplace changes to a competitive environment. This has prompted the study of the Outcome of liberalization and their effect on the financial performance of Postal Corporation of Kenya with the following key variables; Competition, Technology, Quality of service and Staff development.

Key Words: competition, liberalization, quality, restructure and technology training

Introduction

Liberalization is a global movement aimed at enhancing a free market economy. The movement intends to open the borders in order to allow free trade hence making the world, one market and one economy. This initiative is both positive and negative. Several vices and virtues have come up to associate themselves with liberalization; some of them have increased the scope of corporate success while others have led to corporate failures (Zanker, 2007). Market liberalization is “all forms of government initiatives to break the state monopoly in the market, free price controls, reduce entry barriers, and privatize state-owned enterprises” (Crew, 2000). Zanker (2007) consider some factors that have driven liberalization in the Postal sector. Zanker (2007) further explain that the political ground for liberalization was created in the 1980s, when a neo-liberal approach became dominant. The idea behind this new policy was to replace the influence of the state on the economy by a free market with competition. The state could serve as a supervisor and regulator on the market.
The IMF and the World Bank were the driving forces behind Postal liberalization in Kenya. The reduction of trade barriers and the introduction of competition were of cross-border importance. In some countries, privatization of the Postal service monopolies was an important condition for liberalization in order to react flexibly to the market opening and the coming competition. Many member states split their public service monopolies in Postal and telecommunication firms, often under the pressure of the need to increase efficiency, productivity and the quality of service (Zanker, 2007).

While market liberalization has resulted in a lowering of Postal monopolies and increased competition for traditional Postal products, it has also convinced many governments that the public Postal operator must have the autonomy and financial viability to compete effectively while providing universal service. These governments have gone on to sponsor regulatory reforms and targeted investments in the public Postal operator. The results of such reforms can be dramatic in terms of improved financial and operational performance and overall contribution to national economic growth. Similarly, growing globalization and falling trade barriers have sparked competition that goes beyond national Postal marketplaces. The new challenges also provide new opportunities (Bull & Sigvaldsen, 2006).

Bull & Sigvaldsen (2006) asserts that liberalization is the relaxation of previous government restrictions, in areas of social or economic policy or political organization. Liberalization was introduced to enhance competitiveness by introducing a gradual abolishment of public sector monopolies. This renewed competition would lead to improved service quality, productivity and efficiency. Flecker & Hermann (2011) assert that essentially liberalization is about competition; in their study their main argument in favour of liberalization was that competition forces new and liberalized competitors to improve productivity and service quality. Also other scholars have argued that the necessity to have competition in a market is one of the most important reasons for liberalization.

Liberalization is particularly based on the assumption that the opening of a market and allowing competition can achieve many common goods (Krajewski, 2003). Moreover (Krajewski, 2003) argues that government interference with the market often leads to welfare losses. Baker & Dodgson (2002) add to this view that when markets are not competitive, there will be few incentives to put a price at a level which merely covers the costs. If there is only a monopolist in the market, prices will most certainly be set above the level of covering the costs.

**Statement of the problem**

The global Postal environment has changed dramatically in recent years, and there is nothing to suggest that the pace of change will slow down any time soon. To be successful, all actors in the Postal sector must adapt to rapid economic and social changes and keep pace with technological developments. The economic forces of deregulation, globalization, liberalization and to a lesser extent, privatization, have altered the Postal landscape. Postal services are continuing to change as a result of increased competition and higher customer expectations. The new technology driven information society has brought a host of new ways to communicate and do business, such as e-mail and e-commerce.
Liberalization has brought a number of challenges in the management of Postal Services in Kenya. These problems are diverse in nature, Postal Corporation of Kenya today is running its services in a competitive environment, side by side with private hybrid electronic mail through telematic transmission and delivery systems, which effectively substitute or replace the physical mode of mail conveyance and delivery (PCK, 2008). At this important time for Postal, further financial pressures are likely to be critical and in addition to this, liberalization has led to intense competition from foreign and local firms as well as relaxation of licensing money transfer services and courier firms such as FedEx, Public transport, Nation media group, D.H.L, Group 4 security companies and many other players (PCK, 2008). Considering this situation, it is necessary for the Postal Corporation to have a corporate strategy that will give them competitive advantage in order to determine its position with regards to competition in the market place. Due to liberalization the problem of how to design effective marketing strategy for the sale of Postal services in the competitive environment is a challenging task. Postal only remains a viable option for money orders and rural area operations. The services are not being used in some rural areas due to competition among the Securicor companies and public services vehicles, who currently are in the business of mail deliveries (Kagunda, 2004). Domestic Postal Operators have faced decreases in their market shares in terms of volumes over the last decade (1998 – 2008) irrespective of the segment, from 93% to 85% in the letter post and from 30% to 26% in Expedited and Parcels Services (E&PS). In terms of revenue, the decline was from 93% to 85% in the letter post and from 19% to 16% in the express mail and parcels (UPU, 2010). In the views of (Chacha, 2002) the concept of liberalization is both positive and negative depending on the organization, which is targeted. The study was carried out to evaluate the effects of this phenomenon on the Financial Performance of Postal services in Kenya, seek for the answers to the questions as to whether liberalization has led to the Productivity of Postal services performance or not. Refer to annex iii for a five year report on (2005- 2009) business trend of Postal services.

**Objectives of the Study**

1. To find out whether level of competition as an outcome of liberalization has had an effect on financial performance of Postal Corporation.
2. To establish how quality service delivery as an outcome of liberalization has had an effect on financial performance of Postal Corporation.
3. To find out how staff development as an outcome of liberalization has had an effect on financial performance of Postal Corporation.
4. To determine how level of technology as an outcome of liberalization has had an effect on financial performance of Postal Corporation.
Literature Review

Streeck (2003) claimed that time and pathways of liberalization of the Postal sector strongly differ between countries, as liberalization is always developed within a society that has its own specific traditions. Sweden and Finland fully liberalized their Postal sectors in the early 1990s. This process towards liberalization was established way before any other European country or before any type of EU regulation or Postal directive. The UK, Germany and the Netherlands fully liberalized their Postal sectors also before EU regulations required full liberalization (Mallinder, 2007) other countries followed the time path given by the European Union, while Luxembourg requested exemption of the 2011 deadline and got full liberalization postponed until 2013. This shows that the time path for implementing full liberalization of the Postal sector certainly differs between countries. Full liberalization of the Postal market is not only a theoretical concept but wide-spread practice oriented idea that has affected Postal service providers, employees and customers directly in the field.

The challenges included decreasing employment, lowering working conditions and changing labour relations. These challenges were often widely reported in the press, fuelled by evidence presented in governmental reports, studies from labour unions, conferences and testimonies from liberalized countries around the world. As a result, massive strikes and protests afflicted the countries (soon to be) affected by Postal liberalization. In 2009, tens of thousands Belgian Postal workers protested against their working conditions, the closure of post offices, privatisation and the future job losses. The result was a three day strike, specifically focussed on claims that the replacement of full-time staff by temporary workers with lower wages would threaten the position of the Postal worker (Euro news, 2009).

In 2009 was also the year in which about 25,000 UK Postal workers began a series of strikes against job losses and modernisation. Two years earlier, the Postal workers had their first 24 hour strike following the breakdown of talks over pay and modernisation plans of the incumbent Royal Mail (BBC, 2008). A year later, in 2010, the Dutch Postal workers held a series of strikes as often as three times a month. One of the longest strikes was the three day strike in December, following the 11,000 dismissals at incumbent TNT Post, which were the result of increasing competition in the shrinking Postal market (BBC, 2008).

These strikes were not just incidents in a few countries, but could actually be described as a wave of resistance against Postal liberalization throughout the European Union. This became particularly evident in 2010, when a protest was organized outside the European Parliament (EP) in Strasbourg. About two hundred Postal workers from throughout Europe were joined by Members of the European Parliament (MEPs) and national members of parliament (MPs) to demonstrate against plans for further liberalization in the Postal sector (International, 2010). It remains questionable if these protests and demonstrations by Postal workers have had any effect. However, it seems that a majority of the actors involved in the process of Postal market liberalization have come to the conclusion that liberalization did not have the predicted positive effects, including a better value for money, more choice for the customers and better quality of the services. For instance, an independent study of the UK Postal sector points out that liberalization of the Postal service has had no significant benefits for either households or small
businesses (BBC, 2008).
According to (Armstrong, 2007) competition is the art of more than one organization dealing in similar product line and operates in the same business environment. There are several levels of competition in a business environment such as monopolistic competition, where the company has no competitor and it enjoys all the monopoly in the market (Armstrong, 2007). Before liberalization of Postal services in Kenya, the Kenya Post & Telecommunication Corporation used to enjoy a number of advantages that are associated with monopolistic competition.
Liberalization began for the first time in Kenya early 1980’s with the formation of parliamentary select committee on privatization of state corporations (MUSAFIRI 2000). The growth of this movement finally affected Kenya Post and Telecommunication Corporation in 1999 when the giant KPTC was split into three separate entities: Postal Corporation, Telkom Kenya Limited, Communication Commission of Kenya. The process of liberalization has encouraged competition in the delivery of Postal services; the main competitors of Postal in delivery of similar services are Securicor, public service vehicles, DHL, FedEx, Safaricom Mpesa product, money gram, banks and etc. The process of liberalization has created stiff competition on Postal Corporation such that the organization has down sized its employees, conducted corporate restructuring and even realized decrease in the sale of its services. (PCK, 2008)
Postal services operate within a global communications market place that is growing more competitive and diverse every day. These changes are taking place in tandem with dynamic advances in technology. These changes have widened the choices available to customers in service delivery and customer expectations are therefore rising. Technological development, especially in the area of electronic communication, has presented the Postal business with both opportunities and threats. The post has adopted the new technologies selectively and hesitantly, while competitors on the other hand are employing more sophisticated technologies to mount stiff competition and has resulted in reduced business for Postal Corporation, this scenario is evidenced by the declining traffic volumes of nearly all services except remittances (Strategic business plan Postal corporation of Kenya 2005 – 2008).
Hannagan (1998) retrenchment usually involves reducing business units, selling of parts of the business or in the final analysis the liquidation of the entire organization. Much recent evidence has highlighted the crucial social and economic roles local post office play in their communities. Not only do Post offices provide a wide range of postal, government and commercial services, but often their existence helps keep open retail outlets in rural and deprived urban areas. Commonly the shop attached to a Post office is the last shop in the village. Post offices, frequently the only local place to take out cash, make a special contribution to local economies. People able to access cash often spend it in other local business.
Clearly, the closure of a local Post office not only seriously impedes people’s access to the wide range of Postal services, but also has more extensive knock-on effects. People most liable to be worst affected are those who are already vulnerable to social and financial exclusion, such as older and disabled people and people on low incomes. These groups will often find it difficult to access a Post office that is further away, due to increases in costs of transport and difficulties in
physically reaching the service. Moreover, it tends to be older people and the less off that use Post offices most (Hannagan 1998).

The practical effects are likely to be far reaching, culminating in increasing social isolation and all the problems that brings to individuals, communities and society in general. This has also effects on Postal revenue base (Hannagan 1998). Staff reduction is another problem that is brought about by restructuring. Many employees are laid off and not properly compensated for the sudden loss of jobs. This creates job insecurity, which results in low productivity because of the uncertainty created by the retrenchment and hence low financial performance of Postal Corporation (Hannagan 1998).

**Research Methodology**

The study adopted a descriptive research designs. A sample of the responding staff was drawn from the staff population at the Head Offices of Postal Corporation in Nairobi. 60 respondents constituted the sample population for the study.

**Research Results**

The study found that the outcomes of liberalization has come with some problems to PCK with reduced market shares, new government rules and regulations, substandard services, resistance to change and ICT innovations. In particular, a majority of the respondents mentioned that liberalization had affected the corporate image of PCK negatively.

The study was interested in finding out the contributions of PCK to the Kenyan economy and society in general. The respondents in the study suggested that PCK is a vital part of national infrastructure for both consumers and commercial users, provides universal postal services to Kenyans, provide communication and marketing opportunities to citizens and corporate entities, Community Social Responsibility programmes and creates employment opportunities.

**The Effect of competition as an outcome of liberalization on the financial performance of Postal Corporation of Kenya**

The study findings revealed that competition in the postal services industry had increased tremendously, many players have entered the courier market and taken up the core business of PCK and therefore reduced business volumes. It has also lead to enhancement of the quality of service and therefore rebranding and repackaging of postal services. Other respondents cited new technology innovations and the fact that customer expectations have increased since the advent of liberalization. In terms of the study objectives, the study findings indicated that competition factors had a significant impact on the financial performance of PCK with the main issues being the need to introduce new methods of service delivery to remain competitive, competition in the mail industry has led to PCK service improvement and the fact that liberalization of the postal industry by government has brought about competition in postal services.

The correlation between the competition factors and financial performance of PCK was strongly positive. The major effect was however the loss of revenue associated with competition faced by PCK and the respondents suggested that PCK should diversify its product range into new product varieties such as technology based services. This collates with the literature review where
Flecker & Hermann (2011) assert that essentially liberalization is about competition, in their study their main argument in favour of liberalization was that competition forces new and liberalized competitors to improve productivity and service quality.

**The Effect of technology as an outcome of liberalization on the financial performance of Postal Corporation of Kenya**

The findings indicated that technology has become critical in the operational management of mail business globally with adoption of ICT, automation of the PCK network, the fact that technology has enhanced efficiency thereby improving customer satisfaction and the reason that ICT technology has affected the traditional letter mail business. This relates with the literature review where Parckard (2004) observes, the pace of change is so rapid that the ability to change has now become a competitive advantage. The technological advances, rapid globalization and the continuing social and economic shifts-all are causing performance changes in the market place. As the market place changes, so must those who serve it

**The Effect of Staff Development as an Outcome of liberalization on the financial performance of Postal Corporation of Kenya**

The study findings revealed that the most highly extracted factor was the wide range of staff welfare programmes followed by the PCK staff training programmes so that employees can upgrade their skills. The Karl Pearson’s coefficient of correlation (R) between Staff Development factors and financial performance of PCK was strongly positive. Variables which included ICT training, formal career mentoring and a wide range of staff welfare programmes were found to be significant earlier in the factor analysis performed with all the factor loadings being greater than 0.5. The respondents in the study confirmed these facts by mentioning that there were new staff development programmes introduced by PCK especially in-house training and staff training programmes in technology based courses and service delivery programmes. As a result of these empirical findings, the researcher found that the Staff Development Policy framework of PCK had a strong relationship with the financial performance of PCK in Kenya. This is in line with the literature review where (Graham 1998) states that as competition demand better services, employees increasingly require customer-service training for the tools and abilities required to service customers.

**The Effect of Quality of Service as an Outcome of liberalization on the financial performance of Postal Corporation of Kenya**

The Quality of Service as an Outcome of liberalization on the financial performance of Postal Corporation of Kenya identified the factors of ICT innovations, quality service systems to remain competitive, PCK corporate image and staff training in order to improve service delivery to the PCK clientele. These facts were confirmed by a majority of the respondents who agreed that Quality of Service was an important aspect of PCK’s service delivery systems. In particular, the respondents mentioned the importance of quality of service as the fact it ensured client retention and improved service delivery. Customer service charter, quality compliance section and checks and balances were also mentioned by the respondents as the importance of quality of service factors in the study.
The strength of relationship was tested using the results of correlation analysis and the relationship between Quality of Service factors such as quality service delivery systems, corporate image of PCK and the staff training policy of PCK and financial performance of PCK was found to be positively strong. Quality of Service was cited as a factor that affected competitive advantage and in particular, the effects of quality of service on competitive advantage were client loyalty, competition, service delivery, automated services like EFT and the fact that customer satisfaction was of paramount importance. This collates with the literature review where (Philip, 1997) states that service firms may win by delivering better services than competitors and exceeding customer’s expectations. Organizations are learning that higher quality does not mean higher costs. In fact the opposite is true, most importantly, managers are moving from the concept of quality control to the broader concept of quality management.

**Conclusions and Recommendations**

The study made several conclusions based on the study findings key among them the contributions of PCK to the Kenyan economy and society in general which included the fact that PCK provides universal postal services to Kenyans, provides communication and marketing opportunities to citizens and corporate entities, Community Social Responsibility programmes and creates employment opportunities. Another major conclusion was that liberalization had come with some problems to PCK among them reduced market shares, new government rules and regulations, substandard services, resistance to change and ICT innovations. In particular, the study concluded that liberalization had affected the corporate image of PCK negatively. As far as the research objectives were concerned, the study concluded that the level of competition had an effect as an outcome of liberalization on the financial performance of PCK. In particular, the study concluded that competition in the postal services industry had increased tremendously leading to enhancement of the quality of service and therefore rebranding and repackaging of postal services. Again competition has led to new technology innovations and higher customer expectations since the advent of liberalization. The conclusion is that the outcomes of liberalization have affected operations and performance of PCK in a multiplicity of ways such as reduced revenues improved service delivery, increased competition, innovations and increased efficiency since the advent of liberalization. The study concluded that PCK needed to introduce new technology, product diversification, communicating and lobbying the government, improving sales and marketing techniques, postal process re-engineering, embracing change and investing in research and development in order to manage the effects of liberalization in postal services. The study findings illustrated technology factors affected the financial performance of PCK as an Outcome of Liberalization. The findings indicated that technology has become critical in the operational management of mail business globally with adoption of ICT, automation of the PCK network, the fact that technology has enhanced efficiency thereby improving customer satisfaction and the reason that ICT technology has affected the traditional letter mail business. As a result of these empirical findings, the researcher concluded that the Staff Development Policy framework of PCK had a strong relationship with the financial performance of PCK in
Kenya.

The research concluded that the Quality of Service as an Outcome of liberalization on the financial performance of Postal Corporation of Kenya identified the factors of ICT innovations, quality service systems to remain competitive, the PCK corporate image and staff training in order to improve service delivery to the PCK clientele as significant factors in determining financial performance of PCK. The study concluded that quality of service was important since it ensured client retention and improved service delivery. Another conclusion was that customer service charter, quality compliance section and checks and balances were important variables in quality of service that determined financial performance of PCK.

Another conclusion was that Quality of Service as an Outcome of liberalization on the financial performance of Postal Corporation of Kenya and its subcontracts of innovations of ICT product developments, quality service delivery systems, PCK establishment of systems to measure customer expectations against delivered services, PCK corporate image in order to promote the organization’s product and PCK staff training programmes so that employees can be knowledgeable on service delivery to meet customers ever changing demands were all significant in determining financial performance of PCK.

Finally, the study concluded that Quality of Service affected competitive advantage and in particular client loyalty, competition, service delivery, automated services like EFT and the fact that customer satisfaction was of paramount importance had a significant impact on the financial performance of PCK.

References


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