F. Autonomy and Control: Basic Issues for Public Enterprises in a Competitive Environment

Raymond Saner (19)

I. Current Issues and Concerns

Two years after the collapse of the Soviet Union, a new discussion has started concerning an old topic. Writers like Michel Albert (1991) are taking up again such questions as :"What should be the role of the government in regard to economic and social development ?", "What should be the right mix between public and private sector ?" and, related to the topic of the this research committee, "What is the most effective Enterprise Policy ?".

"Should if for instance be an Anglosaxon style neo-liberal laissez/faire policy based on privatisation and a small public sector, or a German style government-led social market policy based on a mixed economy and limited privatisation ?" Michel Albert's answer leans in favour of a German style mixed social market policy. Other authors and scholars would opt for different viewpoints.

The discussion about which policy offers the most stable, equitable, economically sound and socially coherent economic growth and which policy offers the best approach towards enterprise development is again of great importance especially during this period of continued economic recession, growing internal conflits and general geopolitical instability. But which economic and enterprise policy is more successful : a large or small public sector, a privatised or mixed economy ?

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Judging from the 1992 national statistics of the OECD (see annexe Nr.1), there seems to be no clear cause and effect equation between the amount of government expenditure and government employment (indirect measures of public sector size and importance), on the one hand, and national GDP, on the other. Some countries show high GDP, government expenditure and government employment (e.g. Sweden, Norway, Austria, Denmark) others show high GDP and relatively low government expenditure and employment (e.g. Japan, USA, Switzerland, Iceland).

The solution as to 'right' economic policy seems to require a more situation - based, pragmatic approach rather than a rigid recipe full of ideological traps and illusions. Reflecting a similar concern with the rather doubtful usefulness of proposing ideologically 'right' but possibly ineffective economic policy, the advice given by the World Bank to governments of developing countries has recently shifted from a strong emphasis on privatisation of public enterprises to an enterprise policy which puts private and public sector in a more balanced perspective (Ahmed Galal, World Bank, 1991).

But despite the lack of clear evidence in favour of small or large public sector policies, different positions have been taken with various degrees of ideological fervor and justification. Over the last ten years, the positions of the USA, U.K., and Australia have been more in favour of a small public sector and strong privatisation schemes wherever and whenever feasible and possible. In contrast, French, Spanish, Italian, and Scandinavian positions have tended more in favour of a strong public sector and cautious and limited privatisations.

While the debate on 'correct' economic and enterprise policy continues, the facts regarding actual performance levels of public enterprises for instance are rather mixed.

Public enterprises in Singapore for instance are, in general, excellent and profitable performers (Chwee-Huat Tan, 1991) despite the pro-private sector leaning of the Singapore government. French PEs on the contrary show mixed results ranging from excellent to poor despite the pro-public sector orientation of the French government. What are the causes of these differences ? - is it inadequate policy, insufficient policy implementation, contradictory policies, lack of market competition ?

II. The Relative Importance of Type of Ownership of Public enterprises

Different policy options are available to governments which help them control and guide the performance of private and public enterprises (see annexe Nr.2). Competitive market conditions call for different policies than environments characterised by non-competitive market conditions (for instance monopolies or oligopolies). This holds for private and public enterprises. Focusing on public enterprises, the policies range from privatisation, deregulation, reregulation to different forms of service contracts.

While most experts agree on the decision matrix proposed, strong disagreements persist in regard to ownership of public enterprises. Do performances of public enterprises improve once they are privatised ? If so, does the improvement last over time or does it tend to lead to new monopolies and rent-seeking behaviour ? Does privatisation lead to a gradual reduction of capital investment and hence to a loss of future competitiveness in sectors considered of strategic importance by the country governments concerned?

A further complication can occur each time a public enterprise is supposed to achieve a mixture of goals, namely economic, social and political (for instance regional development, employment creation, redistribution of wealth between ethnic groups, etc.). What would then be the consequences of privatisation in terms of social and political costs ?

III. Creating Performance Improvements Without Change of Ownership

Performance improvements of Public Enterprises can be made possible without privatisation. Improvements are partially possibly even under non-competitve market conditions even though this is more difficult and less far-reaching in scope.

Increased efficiency could for instance be achieved through better planning, more systematic management practices, development of better organisational climates and culture, stringent anti-nepotism rules in regard to personnel practices, such as the recruitment of incompetent staff etc.

Improvements can also come about because of an expansion of business activities from a national to an international and even global level, as is the case for instance for many large French public enterprises (e.g. Thomson, Banque Nationale de Paris, Renault, etc.). Being in the global market place requires an adequate level of professionalism whether the enterprise is publically or privately held.

IV. Clarification of Terms: Definition of Public Enterprise

In order to facilitate the discussions concerning Public Enterprises issues, a clarification of terms cammonly used to describe public enterprises is proposed below. As a second step, an attempt is made to identify the role and mandate of public enterprises.

A) Definition of PEs:

Defining what "Public Enterprise" exactly means and what they are supposed to do or not has never been easy. When discussing PEs, most scholars base their arguments for or against PE's on some commonly held criteria but disagree in regard to which or why many of these criteria should be used. The official statistics vary accordingly. Established criteria consist for instance of the following points (adapted from Aharoni, 1986):

1. Legal Structure

1.1. PEs which remain a government department, receiving funds as part of the general budget and employing civil servants;
1.2. PEs which are established by enacting a special law;
1.3. PEs which are incorporated under the general incorporation laws of a country.

2. Ownership

2.1. 100 percent state owned;
2.2. mixed ownership (State as majority or minority owner);
2.3. "silent ownership" through a proxy ownership of another legal entity considered close to the current government.

3. Economic Function

3.1. PEs which function as so called natural monopolies usually in the infrastructure area (transportation, communication, energy sectors);

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3.2. PEs as fiscal monopolies meant to raise revenu through the sale of goods as e.g. tobacco, liquor, salt monopolies;
3.3. PEs enjoying monopoly priviledges which are not natural monopolies such as e.g. national airlines, steel manufacturers, match manufactures, etc;
3.4. PEs "saved" from bankruptcies to save jobs or to support a government's regional economic development policies;
3.5. PEs as instruments of a government's educational or cultural policies such as e.g. opera houses, schools, recreational parks, etc.

The definition of the borderline which separates Public from Private Enterprises is hence neither straightforward nor easily formulated. The yardstick most often used to define the borderline is : a) the degree of direct public control of activities and b) the extent of a firm's reliance on public financing. (OECD Publ. 1987).

B) Role or Mandate

Governments create or acquire Public Enterprises based on economic or non-economic justifications. (M. Shirley, J. Nellis, 1991) These justifications hold for developing and developed countries, they are:

Economic Justifications:

Perceived market failures which produce sub-optimal economic outcomes, such as low production and extremes of wealth and poverty which are hence remedied by government intervention through the creation or acquisition (often through nationalisation) of PEs.

Non-Economic Justifications:

Strategic and political considerations concerning the lauching of so called strategic industries, the containment of foreign ownership or economic dominance, the restructuring of an ailing industrial sector or the "regulation" of intra-ethnic power balances.

V. Main Findings of Papers Presented at the Congress

The twenty papers presented at the Congress were grouped into three sessions. Each session focused on a topic which helped guide the ensuing discussions between panel members and the audience at large.

Session I: "Public Enterprises in Transition: Country Reports on the latest Developments of Policies and Practices" was chaired by Mr. Carlo Facini from the European Commission in Brussels. The aim of this session was to pool information and understanding on specific country developments in regard to public enterprise policy and practice and to gain clarity in regard to current views held about the "right" size of the public sector, as also control and autonomy of public enterprises.

Five papers addressed the specific situation of public enterprises within the European Community, namely in Belgium, France and The Netherlands. For all three countries, increased market integration also means increased competition between Public Enterprises across or within EC territory.

Monopoly positions are less and less defensible. Protectionist laws have to be changed and governments are forced to gradually relinquish the protection of their Public Enterprises. The adjustments to more intra-EC competitiveness is reflected in the respective governments attempts to bring about change within their own jurisdiction.

Adrian Van de Ven's paper describes the situation in The Netherlands which has opted to incorporate its PEs as a way to help them attract capital and know-how and as a way to provide them with more flexible labour conditions. Incorporation is also seen as a strategy towards a facilitation of joint-ventures or a preparation for subsequent privatisation.

The approaches of Belgium and France are similar to the Dutch situation in that both countries are also trying to loosen the ties between the government-owned enterprises and the respective administration in charge of the concerned Enterprises.

Françoise Dreyfus highlights in her paper the gradual opening up of the French PEs' capital structure from e.g. a 23% (1989) to a 49% (1991) potential private capital ownership. Along with the adaptation of French law also comes a renewed emphasis on contractual arrangements between the PE's and the government to set performance objectives.

Michel Herbiet's paper summarizes the current developments in Belgium whose government is also mindful of the EC integration process and tries to support the Belgian PEs, competitiveness by creating so called 'Enterprises Publiques Autonomes'. Giuseppe Pagano in his paper

comments on the 'compromise' aspect of the Belgian solution (between the old PE administration and the not-yet-fully privatised enterprises) and Anne Drumeau's paper ends with a list of questions which have to be answered by the Belgian law makers regarding the regulation of their Autonomous PEs.

Deregulation, liberalisation and privitisation are policy options which are also contemplated by governments of developing countries but with clear-cut differences. Describing the situation of Mauritania, Coulibaly Bocar points out the governments strategy of using PEs as a mean to achieve a redistribution of wealth and as a means to generate employment creation. Both strategies of course mean continued strong interference by the respective Government administration. Focusing on Tunisia, Rafik Jaziri's paper shows how, even if PEs are given more autonomy, independent and market oriented action cannot be easily expected since the majority of the board members are still civil servants who by nature focus more on the execution of government decrees than on their respective PEs responsiveness to market conditions.

Post-communist are in a particularly difficult situation due to the overpowering role played by PE's in these countries' economies. Kiril Todorov's paper addresses for instance Bulgaria's need to reform an economy whose GDP is generated (89.3%) by Bulgarian State Enterprises. Having in mind the dominant position of PEs in his country, Todorov's propositions for reform focus on a mixture between macro-economic change and the continuous upgrading of PEs managers through intensive management training as a mid to long-term strategy to untangle the bureaucratic web of Bulgaria' governed/planned economy.

Session II: "Privitisations & Denationalisations: Success, Failures, Traps, Limitations and Opportunities" was chaired by R. Wettenhall from Canberra University. The aim of this session was to hear about past privatisations, planned privatisations and status quo solutions of countries in different parts of the world, be they developed or developing countries. Insights were expected to be obtained from the experience of countries who have opted for privatisation and/or continued nationalisation policies. Lessons learnt were hoped to be of particular interest to participants form Eastern European countries who are faced with the confusing multitude of policies ranging from 'Shock Therapy" to "Status Quo Re-nationalisations".

In developed countries, governments have in general made use of privatisation policy options but with marked differences. Erich Buerkler's paper compares the states of organisation of various countries' telecommunications industry, namely Switzerland, Austria, Luxembourg, Italy, Belgium, United Kingdom, France, Sweden, Germany and The Netherlands. He finds that the degree of liberalisation in each country is a function of domestic policies.

Peter Curwen, on the other hand, thinks that public or private ownership is not the key issue behind successful performance of enterprises - but it is rather the 'hows'and 'wheres' of competitive choices made by managers, be that e.g. strategic development into growth or synergy. His paper compares two privatised British companies who show clear differences in regard to post-privatisation performance levels, namely British Telecom and British Aerospace.

Stelios Theocharides' paper summarizes the findings of a large UN-inter-agency survey concerning the problems faced by PEs of the transport and telecommunications sectors in Africa. The survey reports a debilitating government interference and delays of decision that have tended to promote "management by obsessive bureaucratic regulation" with few examples of government support resulting in improved performance. Taking into account the critical state of Africa's economies, his paper lists detailed recommendations for African government officials on how to generate substantial improvements of their PE's performance levels.

Looking for ways to improve performance levels of PEs, Walter Fremuth's paper proposes principles of organisation and management for PEs within the context of democratic constitutionality, as for instance exemplified by the case of Austria's Electricity Industry. In his paper, he also comments on the same industry in the post-communist countries of Eastern Europe and suggests that privatisation might not be appropriate at this time due to the lack of competitive market conditions.

Focusing on the assessment of competitive forces within the public sector, François Lacasse's paper summarises the initial findings of a OECD sponsored research project which tries to verify hypotheses regarding the possible disbributive impact of the possible use of market-type mechanisms in the public sector.

Session III:"Public Entreprises over Time: From Administrative Interventionism to Public Management and Back?" was chaired by S. Theocharides from the International Labour Organisation. The aim of this session was to better understand the relation between government policy and public enterprise performance over a span of time. To understand the evolution of this relationship, to see its ups and downs in regard to control vs. autonomy, it was hoped, would help bring about a broadening of perspective from the simplistic 'either-or' choice of 'privatisation or nationalisation, to a more in-depth analysis of macro-and micro-organisational change factors affecting PEs, performance levels.

Peter Eichhorn's concludes that public administration can improve the fulfillment of public tasks if a management approach is introduced. This in turn implies governmental authorization and control of administrative units; the latter should however possess managerial autonomy, proper organization, appropriate accountability, and self-contained finances within a politically given framework.

Looking at ways to balance control and autonomy, Nasir Islam's paper studies the success of different countries'uses of performance evaluation and other management instruments, such as Contract Plan (Senegal), Memoranda of Understanding (Pakistan) and the Signalling System (India).

Reflecting on past attempts to improve public services in Canada, Sweden and the United Kingdom, Jak Jabes observes that when restructuring the public service, one may have to count much less on the restructuring and retooling processes (the designer tools) and more on the reframing and learning processes (the animateur tools).

Looking at the behaviour of managers in more detail, Ahmed Sakr Ashour's paper reports the results of a behavioural study of Egyptian PEs managers. The study found a positive relationship between performance and CEOs and financial directors. The study concludes with the realisation that executives tended to adapt the focus of their roles to changes in corporate performance cycles.

Broadening the scope to global activities of PEs, Roger Wettenhall describes the multiple challenges and opportunities awaiting PEs who internationalise their business. Reflecting on examples of globalised Australian PEs, Wettenhall suggests among other things that such PEs need flexibility to cope with a variety of differing regulatory, entrepreneurial and market contexts necessitating new kinds of managers.

Joint-venturing in Saudi Arabia, an example of internationalisation, is described and analysed by Yousef Terad Al-Saadon. His paper's conclusions state, among other salient points, that if the host country government opts for a no-commitment policy and if the foreign parent company opts for a matching counterpolicy, then the local partner is often left with lowered bargaining power.

VI. Areas of Future Research

Five areas seem to offer promising future research results. Their general contexts and corresponding research questions are described below.

A) Public Enterprises are often faced with the conflict of having to achieve contradictory policy objectives at the same time, for instance regional development or social welfare and profitability.

Question I: Who handles these policy conflicts and how and by whom are these policy conflicts influenced?

B) When comparing the performance levels of PEs of different countries, one inevitably notices differences in regard to efficiency and effectiveness, be it for example the case of railways, postal and telephone services.

Question II: Taking the example of railways - Why is it that public railways differ so clearly with regard to quality of servcie, e.g. travelers' comfort, timeliness, safety standards, etc. ?

C) Privatisation is considered a viable policy option by many governments for more or less objective reasons. In order to separate ideological from economic reasons, it would be most beneficial if the public has at hand more post-mortem studies of privatised PEs.

Question III: What has really happened to privatised enterprises? What can be generalised from existing success and failure stories ?

D) Many governments utilise PEs as a mean to further economic development of their respective countries. Taiwan, Singapore, South Korea to name a few, are known to create PEs, support them well, manage them as profitable enterprises and often utilise them to stimulate the growth of promising infant industries, for instance electronics, machine tools, computers, etc.

Question IV: How successful is the strategy of creating PEs to stimulate growth in specific industrial sectors ?

E) Performance contracts (PCs) have been used by many governments with mixed results. PCs can generate useful performance improvements but can also fail, for instance when governments do not keep their side of the contract obligation.

Question V: What happens to PEs, their customers and suppliers when governments do not keep their side of the contract obligation ?

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