MANAGERIAL AUTONOMY AND ACCOUNTABILITY IN PUBLIC ENTERPRISES

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Introduction

Public enterprises have a vital role to play in the socio-economic development of African countries. In terms of the amount of resources they utilise, the range of skills they employ, and the contributions which they make, or are capable of making, to the gross national product, these public enterprises constitute strategic sectors of national economies. However, their performance has lately come in for sharp criticism. Not only are they regarded as bottomless pits gobbling up scarce national resources, but many of them have been accused of being incapable of discharging the services and the obligations which were considered vital at the time of their establishment. Moreover, judging by the huge capital investments and recurrent expenses undertaken by these enterprises, they could be held partly liable for the increasing external debt burdens that are slowing down the progress of many countries in Africa today.

In this paper, it is argued that the future of the public enterprises in Africa lies in maintaining a proper balance between autonomy and control. African countries need, on the one hand, to establish a self-funding, self-management and self-regulating tradition in public enterprise undertakings, and on the other hand, ensure that the various enterprises meet some minimum standards – such as the standards of efficiency, political accountability, and service to the public. The paper starts with a typology of public enterprises in the hope of providing a conceptual framework for evaluating policies on control and autonomy. In the second section, we evaluate the various control measures that have been instituted by governments over the years. In the third section, the paper focuses on the type of structural and organisation changes required to promote managerial autonomy and effectiveness.

Classification of Public Enterprises

What constitutes an appropriate balance between autonomy and control in public enterprise management depends on the nature of each enterprise. Unfortunately, there is as yet no universally accepted method of classifying
public enterprises. There are as many classification schemes as there are
governments and public enterprise review commissions/committees. Moreover,
myriad classification systems are frequently adopted for pay and grading
purposes rather than as part of the overall process of deciding what each
enterprise stands for and how its affairs ought to be directed.

One of the methods adopted in classifying public enterprises (especially in the
colonial, and immediate post-colonial period, yielded a fourfold classification
scheme, viz:

(i) government departments and regulatory agencies (just a little removed from
pure civil service organisations);

(ii) statutory corporations (body corporates established by specific enabling acts);

(iii) state-owned companies (limited liability companies owned wholly or in part by
government and subject to limitations imposed by pertinent company
acts); and

(iv) management agencies and joint ventures (invariably, ownership resides in
government, while management is supplied by foreign partners).

As the number of public enterprises increased, and with the expansion in their
scope of activities, the fourfold classification described above became
inadequate. Besides failing to indicate the type of results which enterprises in
each category were expected to achieve, the scheme provided no guide as to
how the various enterprises should be managed internally and controlled
externally. In brief, the scheme proved least useful if the intention was to strike
a balance between managerial autonomy and accountability to external bodies.

In an effort to overcome the limitations imposed by the preceding system to
classification, another method – i.e. classification by major area of activity – is
sometimes adopted. With this method, it is possible to identify three ideal types
viz:

(i) regulatory agencies (e.g. Bureau of Standards, National Standards
Organisations, Securities and Exchange Boards/Commissions, National
Universities Commissions, National Manpower Boards);

(ii) public utilities (e.g. railways, water boards, electricity undertakings and
municipal transport services); and

(iii) profit-making enterprises (banks, insurance companies, manufacturing and
commercial organisations).
Even though classification by area of activity represents an improvement over the previous method, it too is of limited application as far as the issues of autonomy and control are concerned. This is probably the reason for the popularity enjoyed by yet another method of classification, i.e. classification by ‘ownership’. The logic in this system of classification is straightforward, i.e. if the source of finance can be identified, the problem of how to govern and control a public enterprise is easily resolved. Isn’t it frequently argued that he who pays the piper calls the tune? The method of classifying public enterprises by ownership is likely to produce the following ideal types:

· *enterprises wholly owned and financed by the government* (e.g. public utilities, statutory corporations, educational institutions, research and development agencies);

· *partnerships and joint ventures* (e.g. petroleum refineries, petro-chemical companies, merchant bands); and

· *managing agencies*, financed wholly or largely, by government but turned over to management agents or consultants (e.g. national airlines or railways contracted out to foreign companies).

That the ‘owners’ of an enterprise should seek to control it is not the dispute. The question is what form the control should take. How does the owner of an enterprise share the policies of the enterprise without meddling in day-to-day administration and without sending conflicting signals to the management staff?

Useful as it may be, the concept of ownership is capable of being misapplied in the management of public enterprises. In fact, outrageous decisions – decisions that are likely to affect the survival and long-term development of an enterprise – may be taken by the mere fact of ownership. The hands of the ‘owners’ may be tied by prior contractual agreements with management agents. Superior management skills and a complete mastery of complex technology may also serve as effective weapons in the hands of foreign partners seeking to keep nosy politicians and bureaucrats at bay. However, when the enterprises concerned are wholly owned and financed by government – and particularly, when the enterprises are managed by ‘indigenes’ – the ‘owners’ on the government side are prone to throw caution to the winds, if only to prove who is in charge.

The problems facing public enterprises tend to be compounded by the fact that several ‘owners’ and/or their representatives seek to exercise control at the same time. The political class and their constituencies most frequently take their claims first as the ‘owners’. The civil service bureaucracy, with its own vested interests, may appear in the guise of ‘owners' representatives', or in some other
form. And within the same bureaucracy, it is not possible for the Treasury, the 'parent' ministries, the 'interested' ministries and other arms of government to call on a public enterprise to play different tunes all at once. In the ensuing confusion, public enterprises concerned may play their own favourite tune. In other words, any attempt to impose too many controls at the same time may leave the enterprises without proper control.

At the other extreme, a plethora of controls may be counter-productive from the point of view of managerial effectiveness and efficiency. Thus, when without the benefit of technical expertise and up-to-date information, the 'owners' interfere in day-to-day administration or constantly veto the manager's decisions, the future of the enterprise may be jeopardised. This is not to argue that all control measures are negative or dysfunctional. As the next section shows, there are different ways of controlling public enterprises and making sure that they are accountable to their 'owners'.

**External Control of Public Enterprises**

External control of public enterprises takes various forms – control through the legislature, political/ministerial control, Treasury control, external audit of accounts and management practices, and miscellaneous bureaucratic controls.

**Legislative Control**

One of the time-tested methods of making public enterprises accountable to external bodies is that of legislations control. As the embodiment of the people's will, parliament can legitimately claim to be acting in the name and interests of the owners' of these enterprises. It performs its role, first, by scrutinising enactments specifying the mandate of public enterprises, defining their structure, and outlining the preferred management and accounting systems. In addition to passing the draft legislation into enabling laws/acts, parliament exercises control over the activities of the enterprises by making it mandatory for the enterprises to table their annual reports and accounts before it. Whether many of its members would be able to make sense out of the accounting information, statistical data, graphs and charts, is of course another matter. The accountants may worry about income and expenditure accounts, while the statisticians look at the statistical trends and projections with their magnifying glasses. For the majority of parliamentarians, what is likely to be of interest is the range of amenities and infrastructural projects located in their constituencies.
In any case, legislative control is only possible where there are legislatures. In countries under military rule, alternative devices must be found to make sure that public enterprises are accountable to the public.

**Ministerial/Political Control**

The executive branch of government itself exercises control over the activities of public enterprises. Through the 'supervisory' or 'parent' ministries, it influences the structures and management practices of the enterprises. The tasks of the ministries responsible for public enterprise include:

- supervising draft legislation defining the scope of each enterprise, and following the draft up to the Ministry of Justice, and, where necessary, to parliament;

- recommending to government the appointment of some persons as chairmen and members of the enterprise's board of directors;

- participating in the selection of the chief executive and the top management team of the enterprise;

- serving as a channel of communication between the government and its agencies on the one hand, and public enterprises on the other; and

- exercising control of 'a general character'.

The first opportunity which supervising ministries have to control public enterprises comes at the inauguration stage. At the time when ideas are being floated as to the desirability for establishing a public enterprise, ministry officials are in a position to shape the destiny and general orientation of the enterprise. Apart from examining ideas and collecting data from various sources, they have to ensure that an enabling law is drafted. The need to put the draft in proper legal/legislative language further entails their having consultations with the Ministry of Justice. The draft may travel back and forth over a period of time, but it is the duty of the supervising ministry to see it to the final stage of enactment. If the enabling law is vague on objectives or leaves too many things hanging in the air, the executive branch would have lost a golden opportunity to control the public enterprise concerned.

It is possible that after a public enterprise has been established, its management would wish to amend the enabling law to reflect changes in circumstances. Even here too, the supervising ministry would have to be closely involved.
Ministerial control of public enterprises goes beyond the framing of enabling laws. The appointment of the chairman and members of each public enterprise's board of directors provides yet another opportunity for ministerial control. In countries with civilian governments, the tendency is to reward political party stalwarts and loyalists with corporation board appointments. The military regimes go to the other technocratic extreme by turning corporation boards over to civil servants.

Packing corporation boards with political elements without regard to their aptitude and competence may hamper the development of the enterprise which they are supposed to control and direct. In the first place, the primary interest of pure political appointees is likely to be the material benefits of incumbency (contracts, fringe, benefits, jobs for kinsmen) and not the technical, and most often boring, aspects of the corporation's responsibilities. Instead of providing the much-needed leadership in the area of policy formulation, corporation planning, and programme evaluation, the political appointees are apt to cover the career managers' authority and functions. The political elements do have vital functions (apart from the strategic planning functions) to perform. First, they can represent the interests to their enterprise at the highest level of government. Secondly, their mere presence on the board confers political legitimacy on decisions taken by management. Thirdly, and as agents of the government, they are in a position to ensure that the decisions taken by the board and the management are in accord with government's overall policy. However, boards dominated by political elements tend to neglect these vital functions.

The general disillusion with the performance of 'political' boards has led to a shift in the direction of 'technocratic' boards. Especially in countries under military rule, corporation edicts and decrees are replete with references to the role of professional ministries and their permanent secretaries in the governance of public enterprises. It has in fact been pointed out that in one African country, one permanent secretary served as chairman of, at least, seven different boards, and as a member of a dozen others. It is not just the burden of office which may prevent over-extended civil servants from acquitting themselves creditably as chairmen and/or members of boards. Their work experience in the civil service, their limited knowledge of the technical aspects of each public enterprise's functions, their general aptitudes and attitudes – these and many other factors are likely to diminish their effectiveness in the competitive world of business.

The point being made in the preceding paragraphs is that the selection of candidates for board appointments affords the government yet another opportunity to control the activities of public enterprises. After all, the board is expected to serve as the 'mind' of the enterprise. If the government wants a results-oriented enterprise, it must start with a results-oriented board. If
performance counts for nothing, then it does not really matter who serves on the board.

Just as important as the composition of boards is the numerical strength and competence of the top management team. The calibre of the person appointed as chief executive (general manager, managing director or director general) will significantly determine the management style adopted in a corporation. His own success or failure will in turn, depend to a large extent on the competence and motivation of his immediate lieutenants.

Government may also control the 'brain' of the enterprise by determining the composition of the top management. At times, certain categories of appointments are classified as 'political'. They are political in the sense that politicians have a say in who holds such appointments, and issues of political sensitivity, loyalty, ethnic balance etc. have to be taken into account. Important as the question of loyalty is, government must not lose sight of the over-riding need for competence. A corrupt and/or inefficient General Manager is as much a liability as a disloyal one. As a matter of fact, 'loyalty' is in need of re-definition. It must now be defined to mean, among other things:

· ability to perform in a job duly offered and accepted; whoever accepts a job knowing fully well he is not up to the demands of the job is disloyal;
· devotion to duty;
· constant search for perfection of jobs and the models of carrying them out; and
· active concern for the public image of one's organisation and employers.

It is not only the politicians who seek to control public enterprises through the management teams. The civil service may wish to appoint as Chief Executive someone with whom it feels comfortable. Thus, in its recommendations to the final appointing authority, the supervising ministry is apt to be biased in favour of candidates with civil service background and/or experience. While such a step might ease communications between the civil service and the public enterprise concerned, it may turn out to be the surest way to stifle innovation and obstruct risk-taking and entrepreneurial efforts in the enterprise.

If the appointment of the board of directors and of the management personnel does not yield the desired result – i.e. optimum ministerial control – the supervising ministry can resort to another method. The enabling laws of many statutory corporations almost invariably provide the exercise of control of 'a general character' by the responsible ministers. Unfortunately, instead of applying this legal clause to right general wrongs (such as the ill-advised policies
and orientation in each enterprise), the ministers and their civil service advisers tend to focus on routine administrative matters – contract awards, recruitment and promotions of staff, and study leave privileges, etc.

**Treasury Control**

The power of the purse wielded by the Treasury is undoubtedly one of the most effective in regulating the activities of public enterprises.

Through the Treasury, the government gives grants and subventions to parastatals. Funds may be allocated to off-set the short-fall brought about by government's policy on prices and incomes – a policy which may in turn affect the public enterprises' pricing and tariff policies. Grants may also be made to public enterprises' pricing which are essentially non-profit, welfare-oriented, or which operate under exceptionally difficult economic conditions.

The power to approve capital projects and underwrite loans serves as an effective weapon against non-viable projects. Perhaps if the power had been exercised earlier, it would have been impossible for many public enterprises to incur the huge external debts that are creating serious problems for many African governments today.

In general, if Treasury control is to be meaningful, it has to take into account the potential and actual contributions of each enterprise to national development, the efficiency of its management, and the various demands which government makes on the enterprise from time to time.

**External Audit**

External audit of accounts and management systems provides the government and the public with an overview of how a public enterprise has allocated the resources entrusted to it. In the civil service, the audit function is carried out by the comptroller and the Auditor General. His office, is however, beset with many problems. To start with, the office tends to be under-staffed. This makes it impossible for it to catch up with the backlog of work in ministries and departments. To expect the few overworked staff in the Comptroller's Department to audit the accounts of public enterprises may be asking too much. In any case, since they (the Comptroller's staff) have been trained to audit civil service accounts, they are likely to be ill-prepared for the business-oriented accounts in parastatal organisations.
**Miscellaneous Controls**

Government may control public enterprises in many other ways. For instance, it may veto decisions to raise tariff, or direct that the commodity prices offered to small-scale farmers be increased.

In countries which have adopted the unified salary and grading system, parastatal organisations may not:

· offer salaries higher than the nationally imposed ceiling;

· apply special incentives and motivation schemes; or

· take any personnel decision not covered by establishment circulars issued by a central ministry or Department of Establishments. Moreover, parastatals must comply with government directive on the ‘freezing’ of vacancies.

In the area of development planning, public enterprises are required to embark only on these projects which have been approved by the national planning authority.

These and other forms of ministerial control can serve useful purpose if they are designed to achieve specific objectives – such as the objectives of public accountability, managerial efficiency and effectiveness – or if they are expected to contribute to the realisation of rationally defined social objectives.

Governments in Africa must be on the constant look-out for subtle attempts to apply the control measures to maximise narrow sectional, political partisan, or bureaucratic vested interests. Moreover, if the aims of establishing public enterprises are to be realised in our lifetime, positive measures must be taken to promote self-sustenance and ‘self-management’ in the various enterprises. The next section concentrates on aspects of government policy which need to be reviewed in order to foster the development of autonomous and well-managed parastatal organisations.

**Balancing Control with Autonomy in Public Enterprises**

Whatever problems there are in balancing control with autonomy in public enterprises are simplified by the fact that the weapons of control are also potential facilitators of autonomy and ‘self-government’. Legislative control for instance, can be preceded by, and combined with, a clear articulation of objectives. Ministerial control can go hand in hand with careful attention to the
selection of boards and management teams. Treasury controls are not antithetical to efforts designed to install sound management and financial control systems. External audits can proceed alongside internal audits. There would be no need to second-guess enterprise boards and managements (or take unilateral decisions which conflict with theirs) if government were to increase the opportunities for dialogue on policy decisions and the criteria for arriving at them. Let us examine these proposals one by one.

According to the Twelfth Inter-African Public Administration Seminar which took place in Ibadan in December 1973, the 'lack of a clearly understood purpose' was one of the factors inhibiting efficient performance in public enterprises. Almost invariably, enabling laws fail to specify the main reason for creating parastatal organisations, and rarely do these laws provide a guide for evaluating the performance of the organisations. It is not surprising that individuals within the organisations and without have taken advantage of this lacuna in statutes. Various organisation members frequently define objectives in ways which conform with their backgrounds and preconceived ideas. Outsiders – particularly, political elements – mostly view parastatal organisations as 'fruits' to be reaped by persons with power and/or influence. Others see the organisations as dumping grounds for out-of-work relatives, dead-woods, or political militants.

Clear articulation (by legislatures or those performing legislative functions) of the objectives and 'line of business' of each and every parastatal organisation would go a long way in resolving the identify crisis facing organisations. It is not too late: the various corporation statutes may still be reviewed to reflect the new emphasis on results, achievement and innovativeness.

Selection and Renewal of Boards

After the objectives have been clearly defined, governments should proceed to the next stage of selecting competent persons to serve on boards. Emphasis should be on their general capacity. They should also be able to demonstrate their knowledge of, and interest in, their parastatal's line of business. For instance, parastatals responsible for costs and telecommunications ought to have on their boards persons with adequate knowledge of modern telecommunications technology. Above all, the renewal of the appointment of any board member whose term has expired and indeed, the life of the entire board, should be determined by the performance of the enterprise assigned to them.

Selection of Top Management Teams
Equally important is the recruitment of the right candidates for the top managerial and professional positions. The education, training, work experience, career history, aptitude and motivation of such persons are crucial to the success of the enterprise.

Also important is their feeling of ‘managerial efficacy’ – or what in ordinary language passes for 'self-confidence'. Parastatals certainly do not need arrogant chief executives who rub off on people the wrong way. Conversely, parastatals also do not require the services of individuals who keep running to the ‘parent’ ministry for every little decision. In order to motivate above-average performance, governments need to consider the possibility of contractual appointments for the position of chief executives of parastatals.

**Installation of Sound, Results-oriented Management Systems**

Parastatals should be encouraged (in fact required) to install a system of self-control and results-oriented management. Decisions on recruitment, training, postings, promotions, discipline and other personnel processes should be *purposive* or results-oriented. So should investment, production, marketing, procurement and operation decisions. It goes without saying that the accounting and financial reporting system should in turn be designed to maximise the gains from internal self-control.

**Financial Control and Accounting**

In addition to installing results-oriented management systems, public enterprises should revamp their financial and accounting systems. The following areas should receive their urgent attention:

- **Credit Control** – parastatals should ensure that the amounts owed by their debtors are recalled in good time to forestall liquidity crises;

- **Record-keeping and Inventory Control** – this is a vital but frequently neglected area: unless the system of documentation is efficient, parastatals cannot rule out the danger of theft, misappropriation and mishandling of fixed assets and stocks;

- **Tendering Procedures** – governments must work with parastatals to devise effective tendering procedures, and ensure that the procedures are adhered to by all sundry;
· Procurement and Supply Systems – improved systems must be introduced from time to time, bearing in mind the special requirements of each parastatal and the environment in which it operates; and

· Budgeting Systems – a results-oriented budget is a precondition for the operation of a system of internal control and ‘self-management’.

Internal Audit

In order to pre-empt fraudulent practices and call the attention of the chief executive to flaws in the accounting system (even before it causes irreparable damage) each parastatal organisation should strengthen its internal audit unit. The personnel of this unit tends to be among the least popular in the organisation, but a capable internal auditor is actually the chief executive’s best friend. It is, after all, the auditor who will provide the lead in the operation of the Early Warning System that is part of a system of self-control.

Dialogue on Policy Decisions

Government and its parastatal organisations frequently find themselves on opposing sides simply because the two apply different criteria in arriving at decisions. On pricing/tariff policy, for instance, the government is likely to be influenced by non-economic, political considerations, while the parastatals emphasise market factors. The two sides consequently need a forum for the resolution of conflicts on such matters.

REFERENCES

