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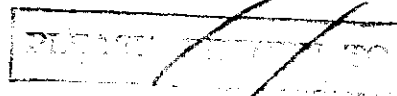
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ECONOMIC COMMISSION FOR AFRICA

Regional Seminar on Technical and Managerial
Problems of African Public Enterprises

Yaounde, 7-14 August 1978

PLANNING IN PUBLIC ENTERPRISES



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PLANNING IN PUBLIC ENTERPRISES^{+/}

The Planning Process

The Seminar focused attention not only on the importance of planning but also on the need for the adoption of adequate techniques of planning underpinned by sound professionalism and a base of economics and statistics. The adoption of these techniques and methodologies has unfortunately not reached advanced stages in all the developing countries.

(A) Macro-Planning

Because of the different socio-economic situations in developing countries, different methodologies had been adopted in the process of planning. Some countries had a highly centralized form of planning emanating from a brain trust at the national level and creating a situation of implementation only at the operational level. Other countries began the planning process at decentralized levels both at the regional and enterprise level, working upwards to a co-ordinated national plan. Between these two extremes, there were various attempts at co-ordinating macro-level planning.

The Seminar discussions threw up a consensus on the following points:

- (a) Any effective system of planning must mean total involvement and commitment of all planning and operational levels.
- (b) The formulation of plans at ground levels would assist significantly in motivating workers towards better performance and self-actualization.
- (c) Any attempt to impose plans solely from a highly centralized level may possibly result in lack of communication and lack of motivation.
- (d) National as well as regional and enterprise planning required the widest possible discussion even at the stage of formulation. Such discussion could be a useful instrument for mobilizing public opinion and public support for plan conceptualization and fulfillment.
- (e) There was need for a proper integration of regional and sectoral plans in order to ensure the harmonious growth of the economy.

^{+/} Culled with the concurrence of the organizers from resume of discussions, conclusions and recommendations emanating from the International Seminar on Planning in Public Enterprises held at Ljubljana, Yugoslavia from September 23rd to October 9th, 1974.

- (f) There was need to ensure that the planning process was conducted with a high degree of professionalism and that all the modern techniques and tools of planning including economic forecasting, market analysis, feasibility studies, statistical analysis, econometric exercises and so forth were adequately employed. This would evidently imply that skilled manpower would have to be employed, trained and developed.

(B) Micro-Planning

In the field of micro-planning, the Seminar recognized the need for detailed planning within the enterprises in all aspects involving production planning, financial planning, material planning, personnel planning, plant maintenance planning, marketing planning, and the planning of research and development. The Seminar noted the insufficiency of such efforts particularly due to lack of professionalism, training and infrastructural facilities.

Organizational and Structural Forms of Public Enterprise

The reports of various countries indicated a great diversity in the structural forms which public enterprise had assumed in different countries. Various interpretations of the term "public enterprise" were mentioned. It was felt that it would be useful to undertake a study of the meaning attached to this term in various countries.

Among the structural forms were:

- (i) departmental undertakings run directly by government;
- (ii) companies registered under normal company law;
- (iii) statutory corporations and authorities established under acts of legislature;
- (iv) sectoral corporations and holding companies;
- (v) enterprises run by local bodies;
- (vi) self-managing enterprises socially-owned.

The Seminar came to the conclusion that, while the patterns and forms did certainly influence managerial efficiency of organizations, they did not constitute a panacea for all managerial problems. What was far more important was the system of operation, the relationship between the government and the enterprises, the working relationship between management and labour, the acceptance of common goals and objectives and a total understanding of the process of management at all levels. Here, again, as in the case of national planning, the Seminar agreed that the enterprises would require to be backed by the highest levels of professional and managerial competence.

Autonomy and Accountability

The establishment on a public basis of business enterprises necessitated the grant of adequate autonomy to the enterprises for the management of their affairs. The Seminar discussions revealed that public enterprises in some of the developing countries were operating under considerable constraints and over-centralized controls which have made it very difficult for them to develop internal self-reliance and an entrepreneurial spirit. There were, however, other countries where there was an excessive decentralization and excess of autonomy. It was therefore the consensus of opinion that the governments of such developing countries should recognize that managerial efficiencies in their public enterprises would largely depend upon the level of autonomy permitted.

The grant of such autonomy, however, could not be totally unrestricted. It was necessary that the interests of the investor and the overall public interest should be adequately safeguarded. For this purpose, while according autonomy to the enterprises, there was need for a system of accountability to public authority. Accountability could take various forms including:

- (a) the publication of full information about the affairs of the company, financial, production, achievement of targets, profitability, productivity and accumulation of surpluses;
- (b) the right of government to issue directives to enterprises on matters concerning national security and overall public policy;
- (c) the right to evaluate performance and to insist on corrective steps to ensure efficiency;
- (d) the need to co-ordinate at central levels activities of different public sector enterprises in order to ensure the harmonious correlation between micro-plans and national macro-plans;
- (e) the right of the authorities to be associated with major capital investment decisions particularly where the funds for such investments came from the public exchequer.

Autonomy and accountability are two of the most sensitive issues in the management of public enterprises and would require further in-depth studies. The Seminar considered at some length the establishment of an adequate supervisory authority, where such authority is lacking, to bring about improvement in performance and to deal with short-falls. It was suggested that such authority could undertake periodic reviews of performance with reference to predetermined objectives and goals. Such authority may be a ministry, a sector corporation, a holding company, a control bureau or a regional organization. To function effectively the authority would, of course, need an adequate reporting system and must be capable of auditing performance professionally. It should be able to intervene in cases of low performance and suggest plans for long-term improvement. The presence of such an authority should not be interpreted as a restriction on the autonomy of the enterprises. It should evolve into an institution of help, guidance and assistance.

Objectives and Performance

The Seminar examined the question of performance in public enterprises and the manner in which performance could be fairly assessed. It was agreed that the performance of public enterprises could not be adjudicated solely on considerations of profitmaking, a yardstick used in the classical private enterprise system. Since public enterprises had been established to discharge a variety of objectives, the assessment of performance would have to be with reference to the fulfillment of these objectives. The Seminar strongly felt that there was need for defining sharply and clearly the corporate objectives of public enterprises in advance. The definition of such objectives would help in the process of planning, in the implementation of goals and finally in the assessment of performance.

The Seminar recognized the desirability of setting up unit objectives as part of unit operational planning. It further accepted the fact that it was not enough to define the global objectives but, to be fully operative, it was necessary to define specific objectives of components and departments within a unit. It was further felt that this approach of management by objectives could be extended not only to existing units but also to plan implementation for better results and quicker identification of bottlenecks.

There was considerable debate about the relationship between financial profitability and social profitability. The achievement of social profitability would involve calculations of the impact of the enterprise on the achievement of overall national goals such as the creation of employment, import substitution, foreign exchange earnings, technological growth, regional development and strategic self-reliance. However, the economic tools for assessing social profitability required to be sharpened. It also recognized that if social objectives were to be achieved, it was necessary that the enterprises should operate on a commercial basis and generate surpluses for expansion, growth and further investment. There was a tendency in many developing countries to run public enterprises at considerable losses, such losses being financed from public budgets and consequently becoming heavy burdens on the taxpayer and citizen. The Seminar recognized that whether financial or social objectives were sought, effectiveness of management must be assured, in particular optimum utilization of capacities, higher productivity of men and machines, better input-output ratios, and the elimination of waste.

In this connection, the methods of project evaluation developed by international organizations and aid-giving countries were mentioned. It was pointed out that social profitability need not be totally disengaged from the evaluation of financial viability and commercial profitability. What is necessary is to make a conscious decision with full knowledge of consequences and, if necessary, to provide for subsidies if commercial operations required so, and to evaluate project performance on the same basis on which the project was approved for implementation.

Protection of Public Enterprises

The Seminar discussions accepted the need of granting some degree of protection to public sector industries particularly during their gestation period. The policy of protection would enable infant industries to grow and gain strength. It was, however, felt that perpetual and absolute protection could tend to breed inefficiencies in the system. This could be avoided in three ways:

(a) by insisting that the public enterprises should seek export markets for their products and thus test their quality and price in competitive international conditions;

(b) by establishing competitive situations within the internal market;

(c) by allowing at appropriate times importation of foreign goods mainly for the purpose of generating a degree of competition for achieving international standards.

Pricing Policy

The Seminar recognized the importance of pricing policies in the development of public enterprises. Some countries had adopted the practice of issuing price directives from governmental levels to enterprises on grounds of overall national policy. Others had left pricing decisions to the enterprises, expecting that such decisions would be based on the market mechanism. In some cases, price policy decisions of the authorities covered both public and private sectors operating in the same field.

The Seminar recognized that in making such pricing policies, it was necessary to ensure that the costs of production incurred by enterprises operating at optimum levels of efficiency were taken into consideration and that adequate margins were allowed for building up surpluses for growth and development. While doing this, however, the market economy should not be lost sight of, so as to ensure adequate protection for the consumer and to establish competitive positions for the products of public enterprise in the international markets. Price policy decisions taken at governmental levels and imposed on enterprises should, it was felt, be exercised with caution so as not to upset the entrepreneurial spirit, self-reliance and autonomous nature of the companies.

Growth and Expansion of Public Enterprise

In the exchange of experiences of public sector growth in various developing countries, it was realized that the public sector had emerged either through a process of nationalization and take-over of private enterprise, foreign or national, or alternatively by the direct entrepreneurship of the state making its own investments. The situation arising out of nationalization and take-over in some cases posed major managerial problems for the new owners. In particular these problems arose out of inadequacy of professional management, and withdrawal of international contacts previously held. It was evidently necessary to make sure that the process of nationalization did not result in

a drop in standards of management and performance. The Seminar felt that it would be a useful exercise to make comparative studies of pre-nationalization and post-nationalization performance, judged in the widest contexts including the attainment of social and national objectives. Such studies would help to identify the causes for a drop or improvement in performance.

The other origin of public enterprise namely state entrepreneurship also raised substantial managerial issues. The Seminar recognized the need for developing professional techniques of making investment decisions. The preparation of feasibility studies and project reports which took into consideration economic analysis, financial analysis, market research, prospects of growth and development, were a necessity before any large-scale investments were made. There was a danger that investments would be made in the flush of enthusiasm without reckoning adequately financial and social consequences of such investments. High quality feasibility studies did involve substantial costs in the engagement of professional consultants or the setting up of internal consultancy expertise. The Seminar felt that such expenditure was well worth incurring. Even after the enterprises were launched, the process of research and development should proceed on a permanent basis. In some developing countries, independent research institutes had been set up. In the case of giant public enterprises, however, it was possible to establish in-house facilities.

Whether public enterprise arose through a process of nationalization or through a process of state entrepreneurship, the Seminar recognized the urgent need of building up the entrepreneurial spirit. There has been a tendency to associate entrepreneurial skills with the private sector. The Seminar felt that there was no reason at all why such a spirit should not impregnate the structure of public enterprise.

Development of Managerial Cadres

The Seminar recognized the considerable gap in the availability of managerial and technical cadres in many of the developing countries. It accepted the need for professionalism in the employees of public enterprises. Such professionalism should not be restricted to narrow fields of specialization. It should cover systems of management and development of entrepreneurial ability. To achieve this high degree of managerial cum technological ability there was urgent need to expand training facilities for top, middle and junior levels of management. Training would have to be considered as a continuous process.

Motivation for Management

The Seminar recognized that in some of the developing countries, there exists a problem of motivation, both for management and workers. It was suggested that if the policy on earnings is without relation to productivity, it might indeed be counter-productive. The Seminar recognized that it is not desirable to build wide disparities in earnings. But all incentives need not

be in financial terms. Social recognition and benefits for special contributions, varying income with productivity within accepted social norms were recognized as some of the devices which could be used for motivating management and workers.

Foreign Capital and Public Enterprise

The Seminar exchanged experiences about the utilization of foreign capital and foreign collaboration in the development of the public sector. Foreign capital, it was agreed, could play a useful role in the developing countries for the following purposes:

- (a) for the transfer of technology and know-how - it was however necessary to ensure that such transfer of technology actually took place; it was also possible to enter into licensing and royalty agreements for the purchase of technology without necessarily involving direct participation in equity;
- (b) for the purpose of developing managerial and technical skills since there was considerable deficiency in such skills, foreign collaboration in the initial stages could fill the gap; here again it was necessary to ensure that local talent would be trained and progressively built up;
- (c) for enabling public enterprises to establish marketing contacts internationally.

While recognizing these contributions, fears were expressed by many participants about the dangers to national sovereignty and national self-reliance arising out of dependence on foreign capital. There was unanimity of opinion that foreign capital must respect the laws of the land and should under no circumstances seek to intervene in matters of a political nature.

Joint Enterprises

One of the instruments of development which appears to have emerged is the establishment of enterprises on a joint basis between public and private sectors, private sectors being either local or foreign. In some countries, there is a legal insistence that the public share should not be less than 51% so as to give the state a controlling interest. In other cases, investments are being made even on a minority shareholding basis. The growth and management of such joint enterprises would of course assist the process of development. It would provide more investable funds and collaboration on technological and managerial know-how. The management of such enterprises, however, does present special features requiring careful handling. The directional force of such joint enterprises should not be allowed to deviate from national objectives. A healthy relationship between the public and private investors would be needed to establish managerial cohesion. The possibility of tensions and debates at board levels cannot be ruled out. Perhaps developing countries may have to issue special laws and regulations to govern the management and control of such joint enterprises.

Till now, foreign capital coming for such joint enterprises is from the developed countries. The situation has been changing in the recent past. Some of the developing countries who were represented at the Seminar had recently developed large financial surpluses because of their oil resources. Per capital incomes in such countries had shot up substantially although they are still classified as developing because the managerial skills, educational levels, lack of diversity in production, and other social factors had not developed correspondingly. The question was discussed in the Seminar about the manner in which the surplus funds of such countries could be used for assistance and development of other countries of the developing world. Some mentioned that they had created special funds for the purpose of investment abroad. They stated, however, that for prudent investment of funds, the developing countries must offer well-conceived feasibility studies and project reports and if necessary engage professional consultants for the purpose. Other countries stated that they were channelling surplus funds primarily for the development of public enterprises in the developing countries.

The Seminar felt that this new situation provided an excellent means of co-operation and mutual aid between the developing countries themselves, enabling them to move away from the traditional pattern of aid flowing only from the developed countries. It was also recognized that although some of the developing countries had low per capita incomes and required assistance from abroad in the shape of funds they had developed high degrees of professional, managerial and technical skills. Such skills could be made available to developing countries which had financial resources but lacked managerial skills. From this arose a definite possibility of joint ventures combining several developing countries pooling their joint resources in the form of money, labour, management skills and technical know-how.

Mixed Economies and National Development

Most of the countries represented at the Seminar had various forms of what is described as a mixed economy. In such an economy, there was recognition of the role both of public and private enterprise. In some cases, the public sectors provided the infrastructure and the basic industries, the intermediate and consumer industries in the hands of the private sector. In other cases, there was parallel operation of public sector and private sector in the same fields of activity, creating thereby a competitive situation. A third category was countries with a declared objective of progressive nationalization, the private sector being maintained for an interim period. A fourth category was countries where the area of activity of the private sector was specifically defined and limited.

The Seminar recognized the problems arising out of the mixed economy situation. It was generally felt that if the mixed economy was to work successfully, the following preconditions would be required:

- (a) the acceptance by private enterprise of a system of national planning;

- (b) regulations and laws defining the role of private enterprise and harmonization of its productive efforts to national goals;
- (c) respect by private enterprise for the laws and regulations of society;
- (d) a situation of co-operation rather than of confrontation between private and public enterprise;
- (e) the exchange of technical services, research and development and information between the two sectors.

The tendency of public enterprises to be allotted non-profitable areas and private sector profitable areas was a dangerous trend and would upset the overall investment balance of public enterprise. The existence of competitive situations either between the two sectors or between public enterprises themselves was, however, a healthy trend and could prove fruitful for managerial efficiency in both sectors.

Participative Management

One of the recurrent themes of discussion at the Seminar was the question of workers' participation in management. Great interest was evinced in the practice of self-management in Yugoslavia. Apart from the perspective analysis given by the Vice-President of the Federal Executive Council, the participants had the advantage of a background paper at the national level and working papers and case studies at enterprises level. Participants were also afforded opportunities to visit enterprises and discuss the operation of the self-management system at the grass-root level. The essential features of the Yugoslav system would appear to be:

- (a) it was not merely a process of consultation with the workers but the actual transfer of the decision-making power to the workers in their enterprises;
- (b) the definition of workers in the Yugoslav system was all embracing, covering all employees from the top managers to the workers on the shop floor;
- (c) there was a direct correlation between personal incomes of the employees and the income of the enterprises, thus introducing a direct motivation for managerial improvement and performance;
- (d) the self-managed enterprises are parts of a total self-managed system inter-related to regional self-governed communities like the communes, republics and autonomous provinces, as well as at the national and federal level;

- (e) the process of planning was derived from the self-management system enabling decisive participation at all levels in the formulation of the plan and consequentially an effective implementation of such mutually agreed upon plans;
- (f) the system also ensured that professional expertise was not sacrificed in the process and that the decisions of workers' councils and general assemblies were backed by high competence and managerial inputs;

In the Seminar discussion, a number of major issues concerning the Yugoslav experience were raised by the participants. Amongst these issues were:

- (a) the problem of reconciling micro-objectives and micro-plans of autonomous self-managed enterprises with the macro-plans at republic and national levels;
- (b) the problem of reconciling the development of socialist planning with the simultaneous development of a market economy;
- (c) the problem of reconciling high professional expertise with a relationship of workers' confidence;
- (d) the problem of financing investments, particularly of a major national and social character by such self-managed institutions;
- (e) the problem of productivity of labour and workers' incentives in the system of self-management.

In answer to these issues, the participants were told that such conflicts and problems did in fact exist but the crucial issue was how their conflicts were being resolved and who had the power to resolve them. That was in effect the essence of the system. The solution of conflicts was found by a complex system of mutual workers' consultation and reconciliation of interests by producers' themselves within the system of social ownership.

While undoubtedly the Yugoslav experience was recognized by the Seminar participants to be of a fundamental nature, experiences of developing countries in the field of workers' participation were also related. These took different forms such as the appointment of worker-directors on the boards of management, the setting up of consultative bodies of workers to discuss matters concerning their own welfare, the establishment of internal control bodies at various levels of management and the close association of the trade union movement with management policy. It was, however, noted that the experience in workers' participation in most of the developing countries was essentially confined to consultation and perhaps to transfer of decision-making in particular fields but not to the

handing over of the total decision-making machinery to the workers. There are some countries, however, which are introducing self-management models similar to the Yugoslav system. It was generally felt by the Seminar that the essence of participative management could be best achieved by growth from within the system itself. It was also felt that one of the weaknesses in planning structure and process of developing countries was the lack of close association of workers and employees in the formulation of plans and in the setting of targets. Consequentially, the implementation of plans tended to suffer.

The Seminar felt that the subject of participative management opened up very significant and critical fields of future study and research which should be based on the exchange of experiences and experiments being conducted in various developing countries. These studies should evaluate the performance of enterprises based on self-managing principles as against those organized on traditional lines. They should also seek solution to what appeared to be inherent conflicts within the self-management system.