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# IMPROVING THE PERFORMANCE
# OF
# PUBLIC ENTERPRISE MANAGMENT IN AFRICA:

## LESSONS FROM COUNTRY EXPERIENCES

DRAFT REPORT OF THE WORKSHOP

UN ECONOMIC COMMISSION FOR AFRICA
PUBLIC ADMINISTRATION, HUMAN RESOURCES AND
SOCIAL DEVELOPMENT DIVISION

# PROCEEDINGS OF A SENIOR POLICY WORKSHOP ON IMPROVING THE PERFORMANCE OF PUBLIC ENTERPRISE MANAGMENT IN AFRICA: LESSONS FROM COUNTRY CASE STUDIES

ORGANIZED BY
THE UN ECONOMIC COMMISSION FOR AFRICA
SPECIAL ACTION PROGRAMME FOR ADMINISTRATION AND
MANAGEMENT (ECA/SAPAM) IN COLLABORATION WITH AFRICAN
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## I. INTRODUCTION AND BACKGROUND

Reform of public enterprises is a central feature of the economic policy reform programmes being implemented by many African countries. In response to the need to promote better public enterprise management in Africa, the Public Administration, Human Resources and Social Development Division launched under SAPAM, a programme aimed at the improvement of the performance of public enterprise management in Africa.

The first activity in this series was a Senior Policy Workshop held in Debrezeit, Ethiopia in November, 1990 devoted to examining the conditions for improving public enterprise performance. At the end of that workshop, participants urged ECA to "hold a follow-up workshop within a year to assess any progress made towards the revitalization of public enterprises in Africa." In order to make such an assessment meaningful, ECA/SAPAM commissioned case studies of selected African public enterprises. The Dakar Senior Policy Workshop was a follow-up to the Debrezeit Workshop.

The Dakar Senior Policy Workshop organized by ECA/SAPAM in collaboration with IDEP took place at IDEP in Dakar, Senegal from 14 to 17 October 1991. The broad objective of this seminar was to examine the findings of the ten case studies[1] with a view to drawing appropriate lessons for improved management.

[1]Though ten case studies in Africa were originally commissioned, only nine public enterprises were undertaken.

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Specifically, the Senior Policy Seminar was devoted to:

(i) Review the practices that were adopted in such poor and successful public enterprises in a wide areas of managment as personnel, marketing, financing etc;

(ii) Assess impact of external environment on public enterprise in both categories;

(iii) Identify a system of indicators to be used in assessing, monitoring and improving the performance of public enterprises; and

(iv) Develop policies and practices (techniques) for turnaround of poor performing public enterprises;

Two papers focussing on comparative perspectives were presented to reinforce some of the conclusions drawn from the case studies. These were, namely:

(i) Revitalising of poor performing public enterprises: Lessons from the "Strategies for success" Programme of Commonwealth Secretariat prepared by the Commonwealth Secretariat.

(ii) Turnaround of sick public enterprises in India: Lessons for Africa public enterprises prepared by Prof. Kandhwalla, Director of the Indian Management Institute at Ahmedabad, India.

The Seminar was attended by 34 participants drawn from among chief executives, managers of public enterprises, academics and researchers in the field of public enterprises as well as representatives of international organizations dealing with public enterprises. The list of participants appears in annex III of this report.

The Seminar was formally declared open by Monsieur A. Fall, Deputy Director of Planning of the Ministry of Economy, Finance and Planning of the Republic of Senegal. Statements of welcome were made by Dr. Asmelash Beyene, the SAPAM Regional Project Co-ordinator on behalf of Dr. Sadig Rasheed, Chief, Public Administration, Human Resources and Social Development of the UN Economic Commission for Africa and Dr. Jeggan C. Senghor, Direcor of the UN African Institute for Economic Development and Planning. Text of their speeches appear in annex II of this report.

In his statement, Monsieur Fall, Deputy Director of Planning observed that in most of African nations the growth of public enterprises was inevitable due to absence of organized local private sector. However, with few exceptions, the public enterprises had perfomed below expectation. A high percentage of public enterprises operate at a loss and their losses have been covered by from public treasury. Thus, far from sustaining development, public enterprises are very often a burden on the economy. Under these conditions, the question of efficiency of the public enterprises becomes important. It is in this regard, that the seminar was of paramount importance.

Dr. Rasheed, in his statement told participants that the Dakar Workshop was a timely response to the judicious recommendation of the Debrezeit Workshop of 1990 in which participants had recommended that a follow up workshop be held within a year to assess progress made in revitalization of African public enterprises. This present workshop like the one of last year represented ECA's modest contribution to the improvement of the performance of African public enterprises - a contribution made in the context of the search for ways and means to make public enterprises operate effectively and efficiently. This search should continue so as to ensure that the African Public enterprises become economically viable entities. This has prompted ECA to embark on the country case studies.

Dr. Rasheed noted that all the participants were united in their conviction that African public enterprises can perform better. That conviction should be translated to commitment. The Senior Policy Workshop can make a contribution to that effect by drawing the appropriate lessons from the case studies and discussions and by giving concrete suggestions for designing performance indicators for African public enterprises.

Dr. Senghor, in his statement, observed that the seminar was focussing on a subject which was of burning concern to African governments. Reforms of the parastatal sector implemented in African countries over the past few years, are reflected, inter alia, in a disengagement of the state from economic activities.

Some enterprises have been privatized while others have been restructured in order to secure better performance within public enterprise.

Dr. Senghor said that those factors which gave a pre-eminent role to the public sector still seem to be present. Public enterprises are fairly preponderant in most countries in spite of some appreciable shifts. However, there is no doubt that this sector no longer meets expectations. It is not possible to give an exhaustive list of all the factors underlying the disfunctioning of public enterprises in recent decades. However, consensus is gradually being reached that the low output of the sector can be explained by external and internal factors. The latter seems to be more preponderant and among them are: poor definition of often incompatible economic and social objectives; management methods inadequate for the efficiency of public eommercial and industrial units; excessive and unwarrantable interference of political authorities in the operation of enterprises, thus confusing control and interference; under utilization of available production capacities; and mismatch between evaluation and performance appraisal criteria.

Dr. Senghor hoped that these and other issues will be more thoroughly analyzed in the course of the seminar, especially since the seminar will be assessing concrete cases with a view to pinpointing factors and forces which have made for success and which have made for failures.

The first plenary meeting of the seminar was chaired by Dr. Senghor, Director of IDEP; while the second plenary was presided over by Mr. J.M.S. Kanakulya, Chairman of Uganda Development

Corporation. Subsequently, two Working Groups were established respectively devoted to detailed examination of the lessons from the case studies and to discussion of indicators for assessing performance of public enterprises. These groups were chaired by Dr. Thiam, Director-General of the African Training and Research Centre in Administration for and Development (CAFRAD) in Morocco and Mr. Patrick D. Chisanga, Managing Director of National Import and Export Corporation Ltd. Lusaka, Zambia. Recommendations and conclusions that emanated from the discussions of the working groups have been integrated into the relevant chapters.

## II. BASIC DATA ABOUT THE PUBLC ENTERPRISES IN THE COUNTRY CASE STUDIES.

Ten African public enterprises were originally commissioned for these case studies, however, only nine were completed. The tenth case study was to have been the Coal Mining Company of Niger.

The case studies were selected carefully and consisted of successful and poor performing or loss making - public enterprises in various African countries. The purpose of these case studies was to examine and identify the conditions, practices and policies that make for good or poor public enterprise performance.

These case studies had a number of key innovations:

(i) Unlike several other studies that had focussed exclusively either on successful or poor performing cases; the SAPAM case studies took both categories together.

(ii) The selected public enterprises were paired such that the sample included one poor performing and the successful public enterprise from the same sector but drawn from two different countries.

(iii) The case studies examined both the internal and external factors that impinge on the operation of the public enterprise.

The detailed studies of each of the public enterprises will be published in book form.

The public enterprises covered in the studies are listed below:

| Sectors in which P. E. is Located | PUBLIC ENTERPRISES | |
|---|---|---|
| | SUCCES | POOR PERFORMING |
| Agriculture | Botswana Meat Commission (Botswana) | Uganda Grain Milling Corporation* (Uganda) |
| Manufacturing | Société Béninoise des Textiles (Bénin) | Tanganyka Dyeing and Weaving Mills (Tanzania) |
| Public utilities | Volta River Authority (Ghana) | Nigeria Electric Power Authority (Nigeria) |
| Transport | Ethiopian Airline (Ethiopia) | Sudan Airways Corporation (Sudan) |
| Mining | Compagnie Sénégalaise des Phosphate de Taïba (Senegal) | |

* Now a turnaround case.

Basic information regarding the profile of the enterprises included in the case studies is presented below.

NATIONAL ELECTRIC POWER AUTHORITY (NEPA), NIGERIA

The National Electric Power Authority (NEPA) was created in 1972 through the merger of the Electricty Corporation of Nigeria and the Niger Dam Authority. NEPA was set up as an autonomous commercial enterprise in a monopoly setting. It was charged with the tasks of planning, generating, transmitting, and selling electricty in Nigeria and even outside Nigeria. It was to do so efficiently, reliably, and at a minimum cost. It is a public monopoly with 100 per cent equity holding by the Federal Government of Nigeria. It is supposed to be an autonomous public enterprise responsible to the general public through the Minister of mines, Power and Steel. It is subject to ministerial control with respect to its budget, pricing policy, procurement of funds, and projects approval. The Board and management of the Authority take final decisions on such issues as the revenue budget; fixing of financial objectives, assessment of risks, use of profits; as well as appointment, promotion and discipline of staff except that of the Chief Executive. In 1988, NEPA had total nominal assets of N5,395.2 million; employed 31,049 people; its installed capacity was 3,641.70 (MW) and available capacity amounted to 2,892.70 (MW). In 1985 it sold 6,149.00 million kwh of energy at a cost of N521.02 million. Between 1980 and 1988, sales revenue increased steadily from N251.9 million to N536.6 million. Other income increased inconsistently from N19.6 million in 1980. During the same period administrative expenses increased by 490.2 per cent to N323.3 million in 1988. Operating expenses rose steadily from N164.6 million in 1980 to N954.8 million in 1988, an increase of 480.1 per cent. Interest and other charges increased by 696.6 per cent to N313.3 million in 1988. Total expenses increased from N169.2 million in 1980 to N1268.143 million in 1988, an increase of 649.4 per cent. From 1985 to 1988, NEPA recorded deficits ranging from N56,632 million in 1985 to N711.279 in 1988. NEPA is a case of a loss making enterprise.

GHANA VOLTA RIVER AUTHORITY

The Volta River Authority was established in 1961 by the Volta River Development Act and charged with the responsibility for the construction and administration of the hydo-electric dam to be constructed at Akosombo.

The authority currently generated hydro-electric power from two dams at Akosombo and Kpong.

The authority sells power to both local and foreign consumers.

The government equity in the authority rose from C59 million in 1980 to over C374 million in 1990.

The authority power sales revenue have increased from C128 million in 1980 to over C37 billion in 1990. The authority profits rose from over C37 million in 1981 to over C12 billion in 1989. The return on fixed assests of 3.02% recorded in 1980 increased to 9.16% in 1990. The authority return on average equity increased from 5.46% on 1981 to 7.90% in 1990.

The authority is considered a success story.

TANGANYIKA DYEING AND WEAVING MILLS LIMITED (SUNGRATEX) was established as a private firm in 1961. It was nationalized in 1974 and is now a subsidiary of Tanzania Textile Corporation, (TEXCO), which holds 61 per cent of its shares. The remaining shares are held by private individuals all of whom now reside abroad. Initially, the company was managed by members of the founder's family: The Hirjis. Later on private management firms were engaed to manage the company. Total of United Kingdom managed the company under contract until June 1983 when they were replaced by local management. The Director-General of TEXCO is the Chairman of the Board of Directors of SUNGURATEX. Other board members are appointed by the Minister for Industry. Private shareholders are also represented on the board. The company's capacity utilization has declined from an average of 51.6 per cent in 1980 to an average of 12.66 per cent in 1988. Weaving and processing declined from a high of mtrs.11.1 million in 1980 to a low of mtrs. 3.5 million in 1989. Sales have been raising but only nominally in view of the massive devaluations of the shilling. Losses have increased from shs3.5 million in 1984 to shs.423.6 million in 1990. Rations of debt to assets are now 103.3, up from 67.7 in 1989. This is a case of a poor performing public enterprise.

LA SOCIETE BENINOISE DES TEXTILES/SOBETEX

SOBETEX, the Benin Textile Company, established in 1969 and became operational in 1970. Prior to the adoption of socialism in Benin in 1975, SOBETEX was owned by a group of private owners comprising of Schaffer, CFAU, CNF with only 13% participation by the government.

With the adaption of socialism in 1975, the government raised its capital to 49%. The capital of the company is 500 million Francs. Its production rose from 173,341 meters of textile material in 1969 to 13, 618,532 meters in 1990. It generated an income of FCFA 6,151,984,568 before taxes in 1990. With the exception of 1982, 1983 and 1984 when it incurred some losses, the other years have registered steady profits. In 1990, it made a profit of FCFA 60,397,972.

This is a case of a successful public enterprise. However, in spite of its success, it has been privatized in 1991. The study of SOBETEX in success story appearing in this series of case studies is based on its performance in the period preceeding its privatization in 1991 when, as a public enterprise, was a success story.

**THE ETHIOPIAN AIRLINES** (the Ethiopian) was established as a public enterprise in 1945 with a capital of Ethiopian birr 2.5 million, entirely government owned, and wholly government subscribed shares of 2500 paid in full. The company has been under Ethiopian management since 1971 and joined IATA as far back as 1958. It currently has a fleet of 25 large and medium type aircrafts and 16 light type aircrafts. The Ethiopian has successfully diversified its customers, clientele, and services. Starting from overhauling unorthodox cargo of live animals and passengers, it has gone to providing services to government officials, merchndise for trade, traders, businessment, expense travellers, and pilgrims. Its total assets in 1990 amounted to Birr 833 million and it employed a total of 3350 personnel. The airline's available ton kilometers amounted to 489 million in 1989/90. Available seat kilometers was 2620 million during the same period. 640,000 passengers were served during 1989/90. The Ethiopian Airlines has been profitable during most years of its existence. It has posted a profit for the last five years consecutively. During its 34 years of operations, the airline has had only four years of negative net working capital, thus operating with no liquidity problems for 80 per cent of the time. It is a case of a successful public enterprise.

SUDAN AIRWAYS CORPORATION (SAC) was established in 1947 as a government department for the main purpose of providing transport services to Government. It was allowed to be commercially utilized only when there was excess capacity. With Sudanese independence in 1956, SAC moved to a more commercially run enterprise. In 1967, it was declared public corporation. finally in 1987, it was declared a public company. The Government continues to hold 90 per cent of SAC's shares. The rest are held by the Sudan Development Corporation. The history of SAC is one of crisis, massive losses and mismanagement. The company's fleet consists of 11 large and medium type aircraft. SAC employes 1826 employees on a full time basis. Another 400 people are employed as casual staff SAC's last audited accounts were for the accounts of 1978/79 and the last final accounts draft prepared for auditing was in 1983/84. There is thus scant information available. It is a loss making public enterprise.

THE UGANDA GRAIN MILLING CORPORATION (UGMC) represents a turn-around case. The company was established in 1955 as a private company, but was slowly nationalized to the point where government and quasi government organizations own 82.4 per cent of the shares. The rest are owned by private firms and individuals. UGMC is a holding company with three fully owned subsidiaries and one partially owned subsidiary. The firm sold 4,916 metric tons of wheat flour; 1,334 metric tons of maize flour; and 4,565 metric tons of animal feeds in 1987/88. The ascendance of political intervention at UGMC led to a decline between 1980 - 1984. Change of management in 1985 ushered in an era of recovery which continues to day. Total net assets increased from UG.sh 70.54 million in 1980 to 546 million in 1989. The company also started recording a profit beginning 1986. This marked the beginning of the turnaround of this otherwise poor performing public enterprises.

BOTSWANA MEAT COMMISSION

From the time of its establishment in 1965, Botswana Meat Commission has grown into a large public enterprise comprising three Abattoirs in Lobtse, Maun and Francistown, cold storages in the U.K. and South Africa, marketing subsidiaries in the U.K., Germany, The Netherlands and South Africa, two tranport companies in Botswana, and insurance company in Ireland, warehousing and shipping office in cape Town and procurement company in Johanesburg. The BMC abbatoirs now have facilities for production of corned beef, canned tongues, wet-blue hides, salted pelts, carcase meal, bolldmeal and bone meal, tallow, cattle hair and other products. For the past four years the commission's turnover has been as follows: for the financial year ending September 1986 it was P154,377,000; 1987, P145,444,000; 1988,P144,869,000 for 1989 it was P171,312,000. During 1960, the Commission's turnover totalled P1,600 million of which P870 million was paid out to producers in payments and bonuses. It paid about P150 million income tax apart from the tax paid by the employees. In 1990, it paid more than P20 million tax to Government and P100 million to producers. It employes over 2000 people and services about 60000 cattle producers.

The Commission was organised as a non-profit making organization in the sense that the surplus generated in a particular year was to be passed on to the persons who supplied livestock to the commission in àccordance with some equitable scheme of division which could either take the form of bonus or increaded producer prices.

LA COMPAGNIE SENEGALAISE DES PHOSPHATE DE TAIBA (C.S.P.T)

In 1953, the Taiba Phospates Comapny was set up. It began its exploitation with an annual capacity of 300,000 tons.

C.S.P.T is a commercial enterprise created for the extraction of phosphate ore and processing it into concentrates at X % degree of humidity capable of being traded in the international and local markets for the benefit of ICS which processes it into phosphoric acid and fertilizers.

C.S.P.T has a Capital of 7.2 billion with 50% State participation while the remaining 50% is distributed between foreign shareholders and a Senegalese bank.

C.S.P.T is a limited liability company established under private law and placed under the supervision of the Ministry of Industry and Local handicrafts and under the financial supervision of the Ministry of Economy, Finance and Planning.

C.S.P.T has a net positive situation which increases from year to year. From 1985 to 1990, it increased by about 9%. This comfortable situation has enabled the enterprises to avoid running into long term debts to fiance its investments. In fact, equity capital represents on average 4 times the total debts. C.S.P.T has through its massive reserves and increased capital, succeded in maintaing its financial autonomy.

C.S.P.T creates a considerable amount of value added for the Senegalese economy reaching a peak of about 5.8 billion in 1989. However, a fall in the value added in 1990 as a result of a decline in marketed output is worthy of note.

Concerning the marketed output, it is to be also noted that it reached considerable proportions in 1988 and 1989 before declining by 20.2%.

C.S.P.T has a total of 700 employees on its payroll. This includes 35 senior managerial and associated officers. 95 middle-level staff and 570 clerks and manual workers.

## III. PROCEEDINGS OF THE SEMINAR

### A. FACTORS ACCOUNTING FOR FAILURE, TURNAROUND AND SUCCESS OF AFRICAN PUBLIC ENTERPRISES.

The discussions of the case studies by participants were preceeded by presentations of a consolidated Synoptic Report emboding findings from five public enterprises and separately on each of the other four public enterprises[2].

NEPA was reported to be a loss-making enterprise, SUNGURATEX as poor performing enterprise, the Ethiopian a case of successful enterprise, the SAC as a loss making enterprise exemplifying situation of an enterprise with scant information, inadequate accounting reports, unstable management and operating in the dark. The UGMC represented a case of a turnaround depicting an enterprise struggling for recovery despite hostile environment and adverse macro-economic factors.

[2]Consolidated Synoptic Report was presented by Prof. Mukandala. Other presentations were by Prof. Sharma on Botswana Meat Commission; Mousieur M. Ndiaye on Compagnie Senegalaise des Phosphate de Taiba; Dr. Laleye on Societe Bennoise des Textiles and Nana T. Kussi on the Volta River Authority, Ghana (on behalf of Mr. Dotse)

The BMC (Botswana) was reported to be a case of a success story of a public enterprise performance but with a question as to the continuity of such a success in face of looming adverse factors that may set-back the success.

The Volta River Authority (Ghana) case of good financial pefromance and continued success with good government relation through use of corporate plan and performance contract. It represents also example of stable management with 3 Chief Executives in 30 years.

Societe des Beninoise Textiles (Benin), was a successful joint venture in which government used to have 49% shares. CSPT (Senegal) was reported as a case of a proftable company despite negative international economic environment factors (substitute product, price, stiff competition). It is strategic enterprise in an important sector of the national economy which the governemt acquired stage by stage. Government has 50% ownership.

In the discussion that followed the participants devoted time to examining conceptual issues regarding criteria for evaluating successful and poor performing enterprises. Among the issues raised are included: Is profitability (profit maximization) the only objective Public Enterprise should or can pursue? Is profitability an appropriate concept to evaluate peformance of PEs? Should not the criteria for Public Etnerprise performance evaluation be different from commercial enterprises? How can a PE operate profitability in face of hostile environment, negative macro-economic factors? What is or should be the criteria for success or failure of an enterprise?

In sharing their experiences, participants observed that the evaluation of the performance of public enterprises should be made in the context of the objectives for which they were set up.

While participants recognized that profit can be useful benchmark for determing success or failure of public enterprises, they at the same time cautioned that it can be either inadequate or inappropriate criteria for evaluating performance. It would be inadequate in instances where governments require public enterprise to pursue both economic and social objectives as alluded to above. Social objectives cannot be fulfilled adequately without profitabiltiy. Profitability is a social objective. Even if profitability has to be foregone to attain social objective then the opportunity cost must be clearly established and consciously reflected in the evaluation of criterea. Pursuit of social objective should not preclude pursuit of financial profits.

Profit would be an inappropriate criteria in cases where public enterprise enjoy a monopoly status which assures it of profit through price manipulation. Even without making profit an enterprise could be adjudged to be doing well, for example, a firm which is successfuly imdertalomg rehabilitating programmes but still incurring losses. The UGMC is reported to have paid bonus to employees bcause they had conducted important rehabilitation programme. Other criteria for performance evaluation should include: uninterrupted availability of goods and services; extent of short term and longterm objective fulfillment; extent of human resource development; extent of quality control - quality of product or- service; Management efficiency; employee relations; and quality of service or product.

After making the above general observations, the participants proceeded to identify the factors accounting for poor and successful performance of African public enterprises. In so doing, they drew on the experiences from the case studies as well as other relevant experiences from the Indian and Commonwealth cases which were also presented to the workshop. Below are listed the factors attributed to success of African Public Enterprises.

## A. *MANAGERIAL INNOVATIONS AND PRACTICES THAT CONTRIBUTE TO SUCCESS*

(a) *Effective Executive Leadership*

- ingenuity, competence and dynamism of Mgt, including Board of Directors;
- qualified, experienced, creative and commited Management

(b) *Clarity of Objectives and Performance Criteria*

- clear specification and appreciation of enterprise mission and objectives in general as well as enterprise performance criteria.
- objectives must be communicated within the enterprise.
- regular and periodic evaluation of PE.

(c) *Financial, Managerial and Commercial Autonomy*

- limited ministerial control and political interference;
- freedom to fix the prices of products;
- freedom to procure funds from both the money and capital market;
- freedom to invest;
- freedom to vary the quality and type of product; and
- freedom to hire, discipline, and fire staff

(d) *Effective Human Resources Management*

- positive and responsive personnel policies and practices - including promotion based on merit and sound recruitment policy based on merit to ensure the right person for the right job.
- motivation and development of employmees - including competitive salary structure and conditions of service, remuneration linked with productivity (eg. payment of productivity bonus), and emphasis on training as a goal for improving staff productivity and job performance

(e) *Effective Communication and Climate of Openness*

(f) *Sound Financial Structure and Good Financial Management*

- including reliance on modern finance tools and procedures, emphasising importance of pre- and post audit.
- proper financing strategy.

(i) *Culture of Performance and Excellence*

- successful performance and pursuit of excellence and a culture that promotes business or enterprise culture as distinct from administrative or bureaucratic culture
- Technical innovation and adaptation.

B. *FACTORS CONTRIBUTING TO FAILURE OF PUBLIC ENTERPRISES*

The participants identified the following factors as contributing to poor performance of public enterprises in Africa.

(a) Excessive Control and Political Interference

(b) Managerial Incompetence

(c) Poor Financial Base of Enterprise

(d) Low Integrity and Incompetence of Board of Directors

(e) Managerial corruption

(f) Poor Personnel Policies and Practices - including Overstaffing, High Staff Turnover, Poor Job Definition, etc.

(g) Ineffective Practice of Management by Strategy

(h) Low Priority Attention to Promotion of Enterprise Culture

(i) Impact of External Factors Beyond the Control of Management - including Price Fluctuations in the World market and Macroeconomic Policies of Government

(j) Unclear objectives by government

(k) Lack of fiduciary responsibility by governments as owners of public enterprises.

(l) Poor Industrial Relations

(m) Poor Feasibility Study and Location of Enterprise; and

(n) Inability of Enterprises to Respond to Inadequate Infrastructural Support.

## IV. PROPOSALS FOR DEVELOPING GUIDELINES FOR ASSISSING AFRICAN PUBLIC ENTERPRISES

In view of the important link between good public enterprise performance and monitoring such performance through appropriate inidicators, participants devoted time to discussing guidelines to be developecd for assessing public enterprise performance. They underlined that any evaluation of public enterprise performance must be based on the objectives for which the public enterprise are established. In this connection, they noted that objectives of setting up public enterprises in Africa are multidimensional. The participants then identified the following:

1. The national control of economy;
2. Better utilization of national resources;
3. The control of the commanding heights of the economy such as energy, transportation and communications;

4. Acceleration the pace of economic development, especially in a situation where the domestic private sector is weak and there is need to avoid foreign domination.
5. The provision of essential social services.
6. Employment generation.
7. Equitable distribution of income in order to protect the poor and the vulnerable groups in society;
8. Financial and commercial objectives.

These reasons have to be reviewed from time to time by governments, however.

The participants identified three broad indicators for assessing the performance of PEs. These are financial indicators, efficiency indicators and effectiveness indicators. The extent to which they can be applied however depends on the type of the PE.

Some of the key indicators proposed include the following:

Financial Indicators

1. Sales trend
2. Revenue (sales plus other income) trend
3. Cost trend
4. Financial ratios:

   (i) current ratio
   (ii) debt, equity ratio
   (iii) debt: asset ratio
   (iv) equity: asset ratio

(v) current debt to asset ratio

(vi) return on sales

(vii) return on equity

(viii) return on capital employed

(ix) return on total assets

Efficiency Indicators

1. capacity utilisation
2. growth rate of output
3. growth rate of sales
4. quality of output
5. capacity utilization rate (Plant factor)
6. plant availability rate
7. labour productivity
8. human resource development (e.g. No. of weeks training per employee)
9. motivation
10. system wastage rate
11. operating ratio
12. administration expense control ratio
13. days receivable ratio
14. cost efficiency ratio (average cost per unit sale)
15. customer satisfaction index
16. operational and efficiency audit (financial audit, management audit, technical audit, human capital audit, and systems audit)

Effectiveness Indicators

The term effectiveness applies to enterprise objectives and the extent to which these are achieved. Since public enterprises in developing countries seldom have clearly defined, unambiguous and consistent objectives, attempts to assess their effectiveness are frequently difficult and frustrating.

In order to be able to assess the effectiveness of PEs the participants proposed the following points for consideration.

1. Objectives must be clearly specified
2. Objectives need to be quantified, that is, translated into targets for resource use and outputs or performance expected, based upon realistic assessments of what is feasible for the enterprise
3. There is need to distinguish between political objectives of government in establishing an enterprise and corporate objectives of the enterprise. Corporate objectives must be operational and often derive from the governments policy objectives.
4. Enterprise or corporate objectives in key areas may include:

   (i) profit requirement

   (ii) financial resource utilization

   (iii) physical resource utilization

   (iv) market share

   (v) innovation

   (vi) productivity and quality

   (vii) human resource development

   (viii) social responsibility

Corporate objectives in these key areas, among others, must be clearly defined and quantified to ensure meaningful ex-post performance assessment. Finally it must be noted that ex-post performance analysis of a PE must be closely related to its corporate objectives and the government's political objectives.

## V. LESSONS AND RECOMMENDATIONS FROM CASE AND COMPARATIVE STUDIES

Participants drew a number of lessons from the case studies and recommendations for improving performance of public enterprises. These lessons and recommendations also benefited from the comparative perspectives offered by the papers on the commonwealth and Indian experiences[3]

### 1. LESSONS

These lessons included the need for:

- clear conception of enterprise objectives.
- competent professional management team, confident, creative and innovative.
- stability and continuity of top level management.
- maintaining firms's operational and strategic autonomy
- maintain cordial and cooperative relationship with government.
- sound organizational structure.

[3]Presentations were on: public enterprises management: Strategies for Success Programme of the Commonwealth Secretariat presented by Dr. H. Akuoko - Frimpong; Turnaround of sick public enterprise in India: Lessons for Africa public enterprises by Professor Kandhwalla presented by Professor Shirima.

- managerial structures and financial discipline with appropriate financial control mechanisms.
- design and execution of sound corporate policies and strategies.
- a peaceful and conducive socio political environment and sound macro economic framework.
- proper recruitment policies and practices.
- staff training in development programmes.
- maintaining appropriate and harmonious industrial relation conducive to productivity.
- awareness of and sensitivity to technological change, innovation and competition, ability to systematically adapt and change and need to maintain, rehabilitate and modernize plant machinery.
- product and service quality control.
- appropriate salary structure, remuneration, and incentive.
- providing an enabling environment for firm to operate.
- installation of appropriate information system for preparation of timely, reliable and pertinent information data.

In addition, the participants made the following observations in ~~regard to~~:-

- The owner/investor of the PE (Government) is not concerned with the performance of the enterprise way, even in cases where poor financial performance is evident. No PE manager has ever been fired for poor financial performance of enterprise.

- Government institutional rules and regulations and macro-economic framework tend to constrain managers' efforts to rehabilitate and revive public enterprises. Managers are constantly faced with new government policies that counteract implementation of new rehabilitation progammes, i.e taxes, liberalization, infrastructure, foreign exchange. Changes in policies are instituted by government without regard to their effect on PE performance.
- Autonomy is not enough unless accompanied by a favourable climate or strategic support by the owner shareholders.
- In evaluating managers, operational problems must be distinguished from strategic problems which are non-controllable factors.
- PE have multiplicity of objectives, economic objectives, social objectives, financial objectives and hence need to develop ecnomic indices, social indices, and financial indices.
- Managers should assess enterprise condition and status before accepting appointment, and even refuse the appointment unless certain pre-conditions are met.
- Emphasis on human resources, that is development of people - ability to motivate and train them is most important factor in explaining success or failure of enterprise performance.

2. RECOMMENDATIONS

Having reviewed the important lessons that can be learnt for the case and comparative studies, the participants recommnded the following strategies for improvement.

(a) Strategic and Corporate Planning

(b) Capital Restructuring and Financial Management

(c) Diversification and Divestment

(d) Market Orientation, Export Marketing and Competitiveness

(e) Technological Competence and Ancilliarisation

(f) Setting of Objectives and Performance Criteria through Negotiation between Enterprise and Government

(g) Sound Mechanism for Selection and Development of Chief Executives

(h) Capacity utilization

(i) Projection and forecast of sales

(j) Simplification of the Lines of Accountability

(k) Adoption of Appropriate Structure and Systematic Mechanisms, e.g. Holding Companies and Memorandum of Understanding

(l) Promotion of "Management by Strategy" Culture in Enterprises

(m) Priority Attention to Effective Human Resources Management

(n) Enhancement of Enterprise Culture

(o) Effective Managerial or Executive Leadership

(p) Identification of Strongest and Weakest Points of Enterprise with a View to Enhancing Performance

(q) Exploitation of Favourable External Factors to Promote Enterprise Performance and

(r) Identification and mobilization of Relevant Stakeholders for the Benefit of Good Enterprise Performance.

## VI. CONCLUSION

The participants of the workshop commended ECA for the successive initiatives it had taken by organzing workshops aimed at enhancing the efficiency and operation of African public enterprises. This was declared as a right step in the right direction

The participants also recommended that in its future activities ECA/SAPAM should try to address the following issues which they felt were priority areas:

(a) Case studies on Policy Analytic Capability in Public Enterprises in Africa.

(b) Financial Management including publishing Annual Reports and Statements of Accounts.

(c) Case Studies on Mechanisms for Appointing Chief Executives and Impact on Public Enterprise Performance.

(d) Reflections on the Effects of Structural Adjustment Programmes on Public Enterprise Performance in Africa.

(e) Case Studies on Application of Market Mechanisms for Running Public Enterprises.

(f) Case Studies on Public Enterprise Financial Profitability and Social Responsibility.

(g) Debt management in Africa public enterprises.

(h) The issue of time management by Chief Executives of African Public Enterprises.

(i) Productivity Measurement in African Public Enterprises.

(j) Developing organizational manuals for African Public Enterpirses.

(k) Budgeting and control in Public Enterprises in Africa

(l) Relevance, Transferability and non-transferability of Western Management techniques in African Public Enterprises.

(m) Enhancing performance assessment skills of African Public Enterprise Managers.

The participants called on ECA to use its good offices to bring the report of this workshop to the attention of the differenct African governments as well as to the managers of various public enterprises in Africa who were not represented in this workshop.

Finally the participants expressed their appreciation to the consultants and resource persons for their contributions, the chairmen and rapporteurs of the different sessions for their excellent performance in conducting the meetings and the Director and staff of IDEP for providing excellent support and for the physical facilities they put at their disposal.