

PUBLIC ENTERPRISES: TO BE OR NOT TO BE?*

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INTRODUCTION

Public enterprises have played a critical role in the developmental process in most developing countries. Reasons for setting up public enterprises (PE's) were wide and varied. First there were equity considerations such as redistribution of income and job creation. Emphasis was placed on providing goods and services or to serve social goals that private sector organisations appeared unwilling or incapable of addressing. An example of the above in Barbados was the case of the National Housing Corporation which provided subsidised housing for the lower income families.

Second, PE's were set up to assist with infrastructural and economic development. Examples to be found in Barbados are the Industrial Development Corporation, Export Promotion Corporation, Barbados Marketing Corporation, Agricultural Development Corporation, Barbados Development Bank and the Board of Tourism. Third, we have those institutions created to collect monopoly rents such as Barbados National Oil Company, National Petroleum Corporation, Caribbean Broadcasting Corporation television and the Barbados Water Authority. Finally we can list private institutions that were taken over because they were either failing or were deficient - the Transport Board.

It has been argued that many of the PE's should be privatised because they are (a) inefficient (b) a drain on the public purse and (c) not fulfilling their original purpose. We contend that the primary aim of creating most PE's was not to improve market efficiency but instead to regulate or control certain markets. We further contend that many inefficiencies exhibited in the PE's are less a function of ownership and more a function of bureaucratic meddling and mismanagement. We believe that some problems originate from conflicting guidelines given to these organisations and although we accept that it is possible for such conflicts to exist, we suggest that these conflicts be minimised or tradeoffs made. For example, Barbados National Bank may be forced to channel credit to a particular sector (agriculture; government) as well as to handle all transactions as efficiently and risk free as possible.

We therefore accept that there is a need for reassessing and reviewing the role of PE's but strongly suggest that emphasis should be placed on reforms other than privatisation i.e. look at liberalisation efforts. The rest of the paper is as follows. The next section looks at some common problems and weaknesses as well as possible causes. This is followed by a suggested agenda for reform.

PROBLEMS, WEAKNESSES AND POSSIBLE CAUSES

Recently there has been a proliferation of articles calling for the privatisation of public sector enterprises. The proponents of privatisation argue that public ownership obstructs

liberalisation efforts and only a return to the private sector will ensure efficiency. They also contend that governments support PE's for socio-political ends and this results in various subsidies being given and tariffs and taxes being waived - the final outcome being inefficient use of resources. Further subsidies shift cost from the consumer to taxpayers and this may not be sensible in some instances. While there may be a case for privatisation of some PE's we need to ask: "Is public provision the most effective and efficient manner of reaching the poor?" Only when this is answered can we consider privatisation of some public operations. Too often privatisation is viewed as a means of reducing budget deficits and not enough from the problem (social and other) of a nation.

The problems of the PE's can be grouped under three main headings (i) allocative inefficiency (ii) productive inefficiency and (iii) non-market inefficiency. It has been argued that allocative inefficiency is a function of market structure more so than ownership, and that in such case government should privatise enterprises in competitive markets since there is no need for government intervention and gains are small or absent. The foremost reason against privatising public monopolies is the creation of private monopolies. Cases in point are the Transport Board and CBC. Since these are in a competitive market the adherents of privatisation would suggest privatisation. Forde (1990) questioned "What I would like answered is how come Rediffusion and the Voice of Barbados can make a profit and CBC continually makes a loss?" He then set about to give a possible answer: "It must mean that they are more efficiently managed than CBC."

While not making out a case for the non-privatisation of either CBC or the Transport Board, can we really compare them with their rivals? The competitors of the Transport Board operate on the more lucrative routes and at times which suit them best². Is it possible for the Board to service all routes equitably and still run efficiently? I really doubt it. Again this is a problem of multiple goals and objectives. Can a government ignore less lucrative routes and non-peak hours? Or should the government privatise and then seek to regulate and control? Several of these questions need to be answered before the government privatises the Transport Board. We believe that Forde (1990) spotted the problem at most PE's and shall deal with that later.

The second type of inefficiency is closely aligned to the third one. Non-market inefficiency is due largely to slow implementation of policies as a result of limited administrative skill. In most small developing countries management capacity is limited and is usually priced away from the government by the private sector. Therefore, as the government expands, it strains its already thin management capacity and this can cause problems.

The final inefficiency is the most pervasive in most public enterprises - productive inefficiency due to internal inefficiencies. Public enterprises in large part, suffer from a weak human resource base as earlier mentioned. This coupled with inadequate risk/reward performance incentives, civil service type organisational culture handed down from colonial times creates x-inefficiencies and does not lead to production. In this tradition bound promotion, structure promotion is based on who was there first, having no regard for entrepreneurial skills. Further, many public enterprises are guilty of misusing production inputs. One has only to look at the

Caricargoes, Caribbean Airways and the Carsicotts to see how easy access to capital and possibly at subsidised levels generates inefficiencies. The easy access to credit permits these corporations to undervalue capital in investment decisions and may result in lower rates of return than may otherwise be. It also leads to high debt to equity ratios in most of these companies. The problem is compounded as several of these inefficiencies may be internalised and spread through the system like a cancer. A case in point, is the loans given by the Barbados National Bank to the forementioned Corporations. The poor performance of them led to further injections from BNB and may in the future lead to the non-profitability of the BNB. The problem is amplified as one PE refuses to pay the other for services. This leads to the problem spreading from one Corporation to the other.

However, one must accept that in some instances the loss in some special cases may be the result of government's social welfare objective. It is difficult at some times to separate gross inefficiency from such a policy.

Another aspect of inefficient use of production inputs is that of overstaffing and poor staffing. Too often public enterprises are guilty of featherbedding mainly to please the minister under whose control it comes. In many instances, the excess staff is of an inferior quality but is foisted on the Corporation. The above accusation can also be made about composition of boards. One only has to see the rapid change of boards and top management personnel as ministers are rotated. Schwartz *et al* [in 6] posited that people behave in ways they perceive to be in their best interest and that this self interest focuses around job security, power and

status, financial rewards and perquisites. They further suggest that organisations develop a culture which consists of beliefs and expectations that in turn produce norms that influence behaviour in an organisation. They note that culture influences and is influenced by the people it attracts, the organisational structure and the systems that are in place for managing, controlling, evaluating and rewarding its workers. In other words, Schwartz *et al* support the thesis that a strong organisational culture is necessary for success but will only emerge in the right atmosphere.

Therefore when workers feel threatened organisations fail. Too often the rantings and ravings of politicians (who very often don't mean what they say) leave workers feeling threatened. Too often workers view management teams handpicked by politicians to be stooges trying to find an excuse to fire them and hire someone from the minister's constituency or party. It is this air of distrust which leads to poor performance, high labour turn over and in the ultimate - inefficiency. The problem is compounded when many managers are misfits and know little or nothing about management. Further, matters get worse when managers themselves feel insecure and are given inadequate risk/reward performance incentives.

Another cause of productive inefficiency is too much political control which can be excessive in quantity but lacking in quality. Ministers³, who must take the blame for failures of PE's under their control, end up giving too many day to day instructions which have nothing to do with strategic directions. This can make the manager feel like a messenger rather than someone hired to control and direct the organisation.

Managerial ability to maximise profits and or minimise cost is not easy in many public enterprises because of several of the problems mentioned earlier. Added to those above are given purchase price and controlled selling prices. Again this may well have to do with the government's welfare strategy. This complicates the evaluating of PE's since the criteria for evaluating non-commercial activity can be very difficult. Poor accounting/audit systems seem prevalent in PE's. The practice of not having regular audits and not having clearly defined accounting systems have caused severe headaches for governments.

AGENDA FOR REFORM

As we have dealt with the problems in a general way, rather than case by case, we will also attempt to generalise the reform agenda. However we must stress that this will differ from corporation to corporation. At the individual level one may look at the present goals and objectives and next use consumer surveys to decide what present goals and objectives should be. Through this, conflicts may be identified and possible solutions or accommodations made.

The overriding change that is necessary is to develop a clear set of objectives, make them known to all and provide the necessary controls and rewards systems to facilitate the change in organisational culture (a mouthful). In simple terms we must seek to change the working and policy environment. We must also seek a way of reducing the conflict and at the same time find a workable compromise between the efficiency aspect and the socio-political role of PE's.

Policy Environment

Managers must be allowed some say in the fixing of prices. It is a major determinant of profitability. Further, it is not sensible for management to be forced to pay a price to a producer who does not encourage efficiency and forces the institution to make a loss.

Digression: this is analogous to the support for infant industries which remain infants for fifty years and then die an infant.

Management must be given a free hand to choose the best workers and not have these decisions made for them. Note, this will only work if the best management team is chosen rather than friends or supporters. Success then is a matter of hiring the right people and leaving them to get on with the job.

The trade policy must be one of producing a good product rather than producing inferior and more expensive merchandise because of monopoly status.

The access to cheap and ready finance should be ruled out. In too many cases this has been abused. Financial discipline should also be implemented through the reduction in the level of cross debts and arrears, improving the accounting and audit capability and a reduction in the level of direct/indirect subsidies. In public enterprises the removal of bankruptcy threats and thus loss of employment is no longer a check to safeguard better management.

Efforts must be made to improve the enterprise management. This can be accomplished by (i) introducing management audits to seek out shortcomings in management; (ii) giving consulting assistance and (iii) training. Rehabilitation programs and financial restructuring may also be necessary.

Legal and Institutional

Reform to the legal and institutional framework will be vital. The supervisory roles need to be clearly enunciated especially as to who oversees and the type and level of control. Board compositions may need to be radically altered. Utilisation of performance contracts may be instituted - the better the performance the more autonomy given. Proper information systems need to be developed and a shift from '*a priori*' to '*a posteriori*' controls would be most welcome. For example, regular audits of accounts should be done to ensure that the PE's are carrying out set goals and objectives.

Privatisation must not be ignored as an option on the reform agenda. In some instances government may find it necessary to take this road and the decision should not be guided by the profitable or unprofitable nature of the enterprise. It can be guided by the type of organisation. For example, the government may opt to keep all corporations that collect monopoly rents, or are geared to infrastructural development. It may opt to privatise the others e.g. the hotels, the marketing agencies etc.

The objectives of privatisation should be to foster private sector development, encourage greater efficiency and use of market forces, and reduce the fiscal burden. The privatisation option can be approached through (i) offering shares to the private sector, (ii) leasing arrangements, (iii) liquidation/sale of assets, (iv) debt/equity swaps and (v) contracting out of services.

The major issues confronting reform in the public sector would then be (a) how to classify the enterprises to go and those to keep, (b) sequencing (c) what is an appropriate rate of return for the particular enterprise (d) is there enough political will and (e) is there a viable alternative to privatisation.

CONCLUSION

Most developing countries created PE's to serve as instruments of social and industrial policy. In most cases the enterprises did not achieve their original purposes and became burdens on the public purse. Several authors have recommended that the PE's be turned over to the private sector. However we believe that privatisation is not a panacea. We strongly suggest it is not the only way to achieve efficiency and that privatisation before reform may not lead to increases in efficiency. We do not accept unprofitability and cost inefficiency to be sufficient conditions for privatisation. In fact, we recommend some liberalisation combined with restructured incentives as a means of bringing about the necessary efficiency gains.

The agenda for reform highlights the need for changing the organisational culture and reducing undue political interference in the day to day operations of the institutions. We posit that the reform agenda calls for political will and with it the agenda is workable. It requires that goals and objectives be clearly spelt out and must be accompanied by appropriate controls as well as a motivation and reward system. Finally we raise some questions that need attention before any final decision is made.

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- [2] Forde, Henry - Interview - New Bajan, February 1990.
- [3] Hammer, Richard M. *et al* (1989) - Privatisation - A Cure For All Ills? - Long Range Planning, Vol. 22, pp 19-28.
- [4] Reid, Stan - Interview - New Bajan, May 1990.
- [5] World Development Vol. 17, #5.

APPENDIX

Public enterprises in Barbados

- Air, Water
 - (1) Barbados Water Authority
 - (2) Caribbean Airways (closed)
 - (3) Caricargo (on the way out)

- Beautification
 - (1) National Conservation Commission

- Communications
 - (1) Caribbean Broadcasting Corporation (radio and television)

- Development
 - (1) Agricultural Development Corporation
 - (2) Industrial Development Corporation

- Financial services
 - (1) Barbados Development Bank
 - (2) Barbados Mortgage Finance Co.
 - (3) Barbados National Bank
 - (4) Insurance Corporation of Barbados
 - (5) National Insurance Scheme

APPENDIX II

Housing (1) National Housing Corporation

Marketing (1) Barbados Marketing Corporation

(2) Export Promotion Corp.

(3) Barbados Tourism Investment Corporation

(4) Board of Tourism

Total Current and Capital Expenditure* on Public Enterprises

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
(4) Board of Tourism	56.3	75.5	70.6	85.3	87.5	92.1

Oil & Gas, Cement (1) Barbados Natural Oil Company

(2) Natural Gas Corporation

(3) Arawak Cement Plant

	1986/87	1987/88	1988/89	1989/90
(2) Natural Gas Corporation	85.1	111.5	95.2	107.1

Sanitation (1) Sanitation Service Authority

* Includes equity capital

Transport (1) Transport Board

FOOTNOTES

- 1a New Bajan, February 1990, pg. 14. Henry Forde on the performance of statutory boards.
- 1b New Bajan, May 1990, pg. 19, Stan Reid
- 2 The reason the Transport Board was 'created' was to rescue crumbling companies. This is another problem associated with PE's - poor initial investments in an effort to protect public welfare.
- 3 Done directly or through hand picked boards.