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Some Issues in Organization and Management of Public Industrial Enterprises
in the African Region .

A Summary *

by

E.H. Abdel-Rahman **

* This paper is a summary of a more comprehensive working paper on the same subject [M 78-2346]. The views and opinions expressed therein are those of the author and do not necessarily reflect the views of ECA or of the secretariat of UNIDO. This document has been reproduced without formal editing.

** Regional Adviser on Strategies, Plans and Policies for Industrialization, Joint ECA/UNIDO Industry Division, United Nations, Economic Commission for Africa, Addis Ababa.

The three major sections of the paper deal with organization issues, management issue areas, and performance improvement programming respectively.

In regard to the first section of the paper which is concerned with "Organization issues" it places special emphasis on:

- A. Evolution of public enterprise sectors as instruments for industrial development at the African level
- B. Forms of Organization of public industrial enterprises in African countries
- C. Organizational relationships between public industrial enterprises and supervisory authorities.

In the evolution of public enterprise sectors in Africa as instruments for industrial and non-industrial development special mention has been made of their existence side by side with private enterprise sectors, recognition of the place and scope of these public sectors in several national charters and constitutions, and the major concern of African policy-makers with improving their performance which still leaves much to be desired. In referring to reasons or motives for the creation of significant public enterprise sectors in various African countries the paper has laid heavy emphasis on the need for striking an intelligent balance between economic objectives of these enterprises on the one hand and their socio-political objectives on the other. In spite of variations among African countries in respect of size and activity of public industrial enterprises the following distinctive patterns are identified:

1. With regard to size of the public industrial sector the two distinctive patterns are: (i) large public systems which almost dominate economic activities in the field of industry; and (ii) public industrial sectors side by side with competitive private sectors.

2. As to size of the operating public industrial enterprise the dominant pattern is generally characterized by the so-called large and medium enterprises.

3. Concerning distinctive activity patterns they are reflected in : (i) public industrial enterprise sectors concentrating mainly on import-substitution industries, particularly consumers' goods; (ii) public industrial enterprise sectors placing special emphasis on heavy industries; and (iii) public industrial enterprise sectors engaged in diversified industries including heavy and light, inward and outward looking producers and consumers' goods industries.

In so far as forms of organization of public industrial enterprises are concerned the paper underlines the following points:

1. African countries seem to be aware of the growing variety of organizational forms for adoption in respect of public industrial enterprises, but the main problem with which they have been faced relates to the selection of the most appropriate form which can best suit given conditions.

2. Need for deciding upon organizational forms of public industrial enterprises on carefully selected criteria in order to avoid hazard choices.
3. Need for reviewing existing forms of organization in the light of actual experience and feedback information
4. Wherever general laws with uniform legal regulations are applied they should allow for inclusion of special provisions in order to meet differences in kinds and objectives of public enterprises.

Concerning organizational relationships between public industrial enterprises and supervisory authorities the paper has examined reasons for these relationships, type of supervisory and control authorities, major forms of supervision, and problems encountered and measures proposed to streamline organizational relationships. Special mention has been made of corrective policy measures such as:

1. Development of accounting systems at the enterprise level;
2. Development of effective internal control systems;
3. Limiting intervention by supervisory authorities to broad policy directives;
4. Development of supreme audit institutions with a view to initiating and/or promoting performance and programme auditing side by side with traditional financial auditing;
5. Creation and/or activation of specialized parliamentary committees to examine issues relating to supervision and control of public enterprises.

As regards the second section of the paper it is concerned with management issue areas which relate to:

- / A. Investment and financing;
- / B. Production;
- / C. Marketing and pricing;
- / D. Personnel and training.

In the area of investment and financing the paper singles out a number of major issues involved in investment decisions, sources and terms of capital financing, and use of management techniques for policy decisions.

Attention of policy-makers has been drawn to the need for appropriate measures to solve several problems in "investment decisions" at the level of public industrial enterprises. These problem areas mainly relate to:

- (i) Failure to formulate in a systematic manner a detailed, consistent and long-term strategy for industrial development to be applied at the investment project level;

- (ii) Vague and inadequate distinction in national planning documents between the desired roles of public and private sectors of investment;
- (iii) Limited number of available projects at the time of plan preparation which does not allow a proper application of selection criteria;
- (iv) Carrying out investments which disregard external economies and inter-industry relationships;
- (v) Inadequacy of institutional frameworks for industrialization strategies in the form of central industrial development organizations capable of leading the industrialization drive in both public and private sectors, and ancillary specialized institutions which can effectively render necessary industrial services;
- (vi) Lack of indigenous capabilities in the area of project preparation and evaluation;
- (vii) Time-lags between submission of enterprises and their actual approval;
- (viii) Time-lags involved in procurement of machinery and equipment as well as in installation of capital assets which under inflationary pressures increase capital cost of investment projects;
- (ix) Tendency to invest in a number of projects without due regard to the ability of completing them in planned time-periods.

Attention of policy-makers is also drawn to the issues involved in "sources and terms of capital financing" which mainly relate to:

- (i) The equity/loan capital ratios required for maintaining a well balanced capital structure;
- (ii) The question of deficiencies in financial intermediaries as instruments for providing long-term and short-term capital to public industrial enterprises;
- (iii) The issue of profits and depreciation allowances as means of self-financing of public enterprises;
- (iv) The question of competitive access to capital, particularly foreign exchange, by both public and private enterprise sectors and how the lack of competition and inadequacy of free capital markets have tended to favour the public sector;
- (v) The issue of terms of capital financing and how officially determined interest rates may not reflect the scarcity of loan capital;
- (vi) The question of external financing of public industrial enterprises with special reference to relatively high interest rates and hard re-payment terms of suppliers credit, earmarking external capital to specific investment projects, restraints on remittances abroad and compensation of non-business risks, inadequacy of national institutions

for appraisal of foreign investments and negotiating with foreign investors, lack of a common framework for investment schemes in Africa with a view to maximizing regional benefits from foreign capital financing, and so on.

In order to take well-founded policy decisions in the areas of investment and financing of public industrial enterprises the paper underlines the need for improving "management techniques". In this connexion, mention is particularly made of capital, cash and performance budgeting, uniform accounting systems, financial analysis, performance and programme auditing.

In the area of production the paper examines four main issues relating to:

1. Production planning and control
2. Capacity utilization
3. Preparation of standards and norms
4. Choice, adaptation and development of industrial technologies.

In regard to "production planning and control" policy actions are required to solve the problems involved in:

- (i) Setting production targets (lack of long-term strategies, lack of norms and standards, excessive intervention of supervisory authorities etc.)
- (ii) Procurement of foreign exchange to maintain the flow of planned requirements
- (iii) Working conditions, human engineering and materials handling
- (iv) Quality and inventory control

As to "capacity utilization" the paper refers to:

- (i) Factors responsible for excess capacity (building capacity ahead of demand, quasi-monopolistic positions of enterprises, bottlenecks in supplies and unsuitability of industrial policies)
- (ii) Effects of capacity under-utilization at micro and macro levels on scarce resources, output, costs, competitiveness, employment and technical progress
- (iii) Need for empirical studies on which to base policy actions for eliminating idle capacity
- (iv) Checklist of policy actions (e.g. introduction of shift-work, improvement of planning, reduction of machine idle time).

Concerning "preparation of standards and norms" the paper points to:

- (i) The question of "work studies" and the need to benefit from them since they are instrumental in raising productivity.
- (ii) The question of cost standards upon which standard costs are based and the need for action programmes to improve cost and management accounting systems.

With regard to "choice, adaptation and development of industrial technologies" the paper refers to the need for:

- (i) Solving problems attributed to internal policy-decisions at macro and micro levels (e.g. national development technology councils, national institutions responsible for industrial services, choice of techniques compatible with employment-oriented strategies and policies, R & D, training.)
- (ii) Solving problems attributed to external policies at regional and international levels (e.g. establishment of regional centres, utilization of international technical assistance delivery).

In the area of marketing and pricing the paper singles out four major issues relating to:

1. Planning marketing strategy for public industrial enterprises
2. Organizing for marketing planning and control
3. Determination of prices for manufactured products of public enterprises
4. National machinery for pricing policy.

In regard to "planning marketing strategy" mention is made of the ill-considered product, price, distribution and promotion strategies which have been the source of several managerial problems. Reference is made in the paper to certain guidelines for improving these marketing strategies (placing emphasis on marketing research; giving due consideration to product-package and product service in addition to product-core; product adaptation to market demand; testing products in the market; selection of channels that minimize obstructions; selection of promotion-mix which conforms with promotion objectives of the enterprise etc.).

Concerning "organizing for marketing planning and control" the paper points to the need for strengthening co-operation between marketing, manufacturing and financial management; establishment and/or strengthening of institutions providing the so-called "marketing supporting services" (export-promotion boards etc.) and "industrial marketing centres" at national or subregional levels.

As to "determination of prices" mention is made in the paper of reasons for government intervention to regulate prices, current practices and problems of price determination, and emphasis is placed on the need for formulation by supervisory authorities of guiding rules in the field of pricing within the framework of public policy.

With regard to "national machinery for pricing policy" the paper criticizes the practices of price fixing by the relevant ministry on a case-to-case basis and proposes the establishment of a centralized machinery for formulating rules on price determination and guidelines for pricing policy.

In the area of personnel and training the paper examines four major issues relating to:

1. Staffing in general and recruiting top-management in particular
2. Autonomy of public enterprises in personnel administration
3. The demand for training to meet manpower requirements
4. Training institutions, policies and methods.

In regard to "staffing in general and recruiting top-management in particular" the paper underlines;

- (i) The need for personnel managers of already existing or new public industrial enterprises to carefully examine the problems involved in staffing from various sources of manpower supply and lay heavy emphasis on training as the most powerful instrument for solving them.
- (ii) The need for a "centralized advisory recruitment service" to assist in the selection, screening and placement of top-managers.

Concerning the "autonomy of public enterprises in the area of personnel administration" the paper points out the problems involved in imposition of unnecessary employment as well as in standardized wages, and therefore stresses the need for new practices which relate wages to productivity, adopt job evaluation techniques, use merit-rating methods, reconcile labour participation in management with discipline and improved performance.

As to the "demand for training to meet labour requirements" of public industrial enterprise sectors the paper offers reasons for the rising tendency of that demand and underlines the need for surveys to assess manpower requirements, manpower supply, manpower gap specifying critical skills and training needs of various skills.

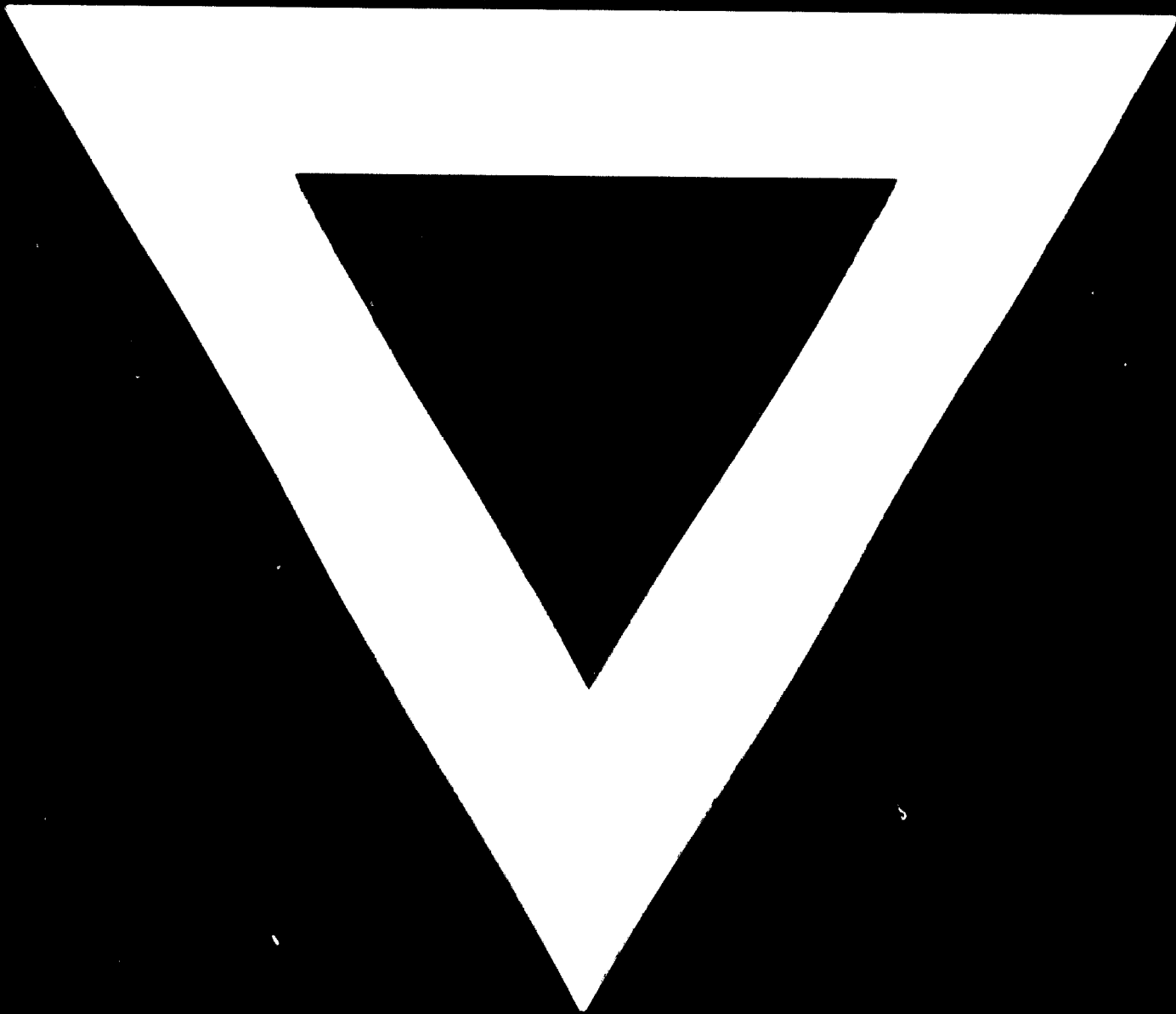
Regarding "training institutions, policies and methods" the paper proposes the establishment and /or strengthening of certain institutions at both the enterprise and national levels, urges the full utilization of technical assistance delivered in the area of training at the international level; and provides a checklist of actions to improve policies and methods of training (e.g. sufficient allocations for training in budgets of enterprises, proper selection of trainees, increasing training grants, linking promotion with training, co-ordination of training with research, strengthening industry-university linkages etc.).

In the third and last section of the paper which gives some concluding remarks special emphasis is placed on the framework of a programme geared to improving performance of public industrial and non-industrial enterprises.

The main points underlined in this section are:

1. Need for an urgent and programmed action for improving performance of public industrial enterprises in which these enterprises, their supervisory authorities and relevant international organizations are involved.
2. Need for establishing and/or strengthening:
 - (a) a system for performance appraisal at the enterprise level with the assistance of supervisory authorities
 - (b) a system for performance evaluation by supervisory authorities at macro and micro levels
 - (c) a system for "preventive strategies" to reduce the demand for corrective interventions by supervisory authorities.
3. Systematic performance appraisals of the public sector and its subsectors, including industry, should be a recognized function of the planning machinery. Periodic undertaking of these appraisal exercises requires the availability of clear-cut targets, sectoral and subsectoral accounts, and trained personnel.
4. Performance evaluation at the micro-level by supervisory authorities may be undertaken by the ministry concerned as well as by the supreme audit institution. African countries should move without delay towards the establishment of norms and standards, uniform accounting systems in order to be able to engage effectively in performance and programme auditing.
5. On the basis of effectiveness or operational auditing low-performing enterprises can be sorted out. Their problems can then be solved by means of a joint programming exercise in which the enterprises and their supervisory authorities participate.
6. Preventive strategies to be included in the framework of the performance improvement programme may take the form of the following examples:
 - establishing a formula for organizational relationships which strikes a reasonable balance between autonomy and accountability
 - establishing a "centralized advisory recruitment service"
 - development of capabilities at various levels.
7. Need for intensification, co-ordination and integration of international assistance programmes in the area of improving performance of public industrial and non-industrial enterprises.

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