

Public enterprises in Papua New Guinea: the need for strategic management

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The involvement of the state in the economy has grown and varied over time, including the considerable extension of government into what were previously functions of the private or market sectors. The result was the emergence and growth of the 'mixed economy' during the twentieth century. Public enterprises were established in almost every sector of the economy to ensure government's socioeconomic objectives were attained and to generate revenue.

A public enterprise is an enterprise with a corporate identity whose capital is wholly or substantially provided by a central or local government authority and so is accountable to that body. Its objectives are primarily economic but it can also be used to attain the government's social and political objectives. Public enterprises are established by an Act of Parliament or incorporated under a country's civil or business law—in the case of Papua New Guinea, under the Companies Act.

Worldwide, the contributions of public enterprises have been enormous. The rebuilding of France, Great Britain and other European countries after the Second World War was effected through public enterprises.

In developing economies, public enterprises have been established to provide impetus for economic development as well as fulfil other social and political objectives of the government. In Papua New Guinea, public enterprises have contributed only modestly to the large size of the public sector. Their scope of activities is varied and they can be found in almost all sectors of the economy. The range of public enterprise investment in Papua New Guinea reflects the philosophy present at the time of independence. It was held then that the best means of serving the country's population was through state or state-backed institutions, as found in other developing countries.

In Papua New Guinea, public enterprises may be placed in four categories, namely, commercial statutory authorities, non-commercial statutory authorities, financial statutory authorities, and commercial government investments. The first three categories comprise bodies established by individual Acts of Parliament. The last-mentioned category comprises entities created by an Act of Parliament, those established by Provincial legislation—as in the case of Provincial Development

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Corporations—and those established under the Companies Act to operate on commercial principles. The legal regimes provide for certain accountability, control and reporting requirements. For example, the Oil Palm Industry Corporation Act provides for the appointment of representatives and the chief executive officer. It also requires the organisation to present reports to the Minister for presentation to Parliament, and it is subject to the requirements of the Public Finance (Management) Act and the Audit Act. Those public enterprises incorporated under the Companies Act are required to present financial statements and reports by directors and to make annual returns available to the Registrar of Companies. Similar to those public enterprises established by Acts, they are required to comply with legislation such as the Public Finance (Management) Act and the Audit Act and to provide certain reports and information to be tabled in Parliament. The government can also ensure control, accountability and performance standards through its policy directions or under powers given to certain Ministers in the enabling legal regimes.

Public enterprises are not only found at the national level but also at provincial and local government levels. Local government councils such as Dei, Whagi, Mt Hagen, Asaro, Watabung, Kainantu and Goroka have been engaged in commercial investments or involved in direct operation of business entities. With the advent of provincial governments in the late 1970s, the national government provided them with grants and loans for the setting up of business arms. This resulted in the establishment of 19 provincial government business arms or their commercial enterprises, commonly called Provincial Development Corporations (PDCs). Here I report on the performance of one PDC, the Nokondi Group of Companies of the Eastern Highlands Provincial Government. I point to the absence of strategic

management as a major factor in its poor performance—a factor that appears to underlie the generally poor performance of public enterprises throughout Papua New Guinea.

Provincial Government Public Development Corporations

The 19 PDCs, which are wholly owned by their respective provincial governments, are all incorporated under the Companies Act, with some provinces enacting provincial legislation detailing establishment, accountability, control and reporting and other requirements. Provincial Development Corporations are business arms and through them the provincial governments make further investments or use them as holding companies for subsidiaries and associated companies. Although PDCs were established to help attain the provincial governments' social and economic objectives, their prime motive was to generate profits for the provincial governments.

The Organic Law on Provincial and Local Level Governments (OLPLLG), the Audit Act and the Public Finance (Management) Act provide for the Auditor-General to control and audit the accounts, monies and properties of the provincial government, including their subsidiary corporations and companies. The Companies Act has its own reporting and accounting requirements. Apart from national and provincial legislation, policies and directives, the Audit Act provides for the reports of the Auditor-General on each provincial government, its corporations and their subsidiaries to be tabled in national Parliament in the year following the financial year. Public enterprises and PDCs are required to be accountable and report to their board of directors, National or Provincial Executive Council, Provincial Assembly, Registrar of

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Companies, the Auditor-General, and the national parliament.

Although there are adequate control, accounting and reporting mechanisms in place, there are shortcomings and oversights within the system and the performance of many public enterprises and PDCs has been very poor. Due to manpower and other resource constraints in the Auditor-General's Office, audit reports are not available at the required time. Also, audit reports have not been submitted to Ministers for tabling within the stated period—that is, the mid-year sessions of Parliament—due to other pressing matters. Further, even if the reports are tabled, there is rarely any constructive debate and corrective actions taken through appropriate bodies. To make matters worse, the Auditor-General does not have the executive powers to enforce its findings.

National and provincial governments often appoint people as directors of public enterprises who do not have the required knowledge to represent them effectively on the board of directors. Though the politicians or governments are not re-elected, these people remain on the boards. In such circumstances the national, provincial or local governments have no contact or control or influence over these directors. The result for some provincial governments is that it loses touch with its PDCs.

Since their establishment the performance of PDCs has been quite unimpressive. This outcome does not differ from the experience of public enterprises in African and other developing economies. In Papua New Guinea, it is very difficult to measure PDC performance, as there are no established performance objectives and standards. However, if one were to use profitability as a measure, their performance can be seen as very poor as most PDCs were making losses a few years into their operations, while a few were already facing liquidation. Most provincial governments have been continually

subsidising their PDC, most have become a drain on scarce provincial government resources.

The reasons for the chequered performance of PDCs have been the lack of qualified staff and good management. In some cases, PDC management has been under political pressure or has had little management autonomy in decision-making; or worse, there has been a low level of economic activity in the provinces and the PDCs have been operating in the wrong environment without assessing their ability to operate economically. The basic problem for most PDCs has been their inability to apply strategic management techniques. They have not been able to analyse their internal and external environment to assess their strengths, weaknesses, opportunities and risks. They have been operating without any determination of where they were heading and therefore making plans, strategies, programs and budgets in a vacuum.

Case study: the Nokondi Group of Companies

Like most PDCs, the Nokondi Group of Companies, the PDC of the Eastern Highlands Provincial Government has not been operating as required in recent years. Initially, it was operating successfully and profitably. The PDC and its subsidiaries were making profits and paying dividends to the provincial government. In these earlier years it did not engage directly in business activities but invested in local companies, thus assisting in their growth and in the promotion of local entrepreneurs. However, Nokondi fell under the influence of local politicians and other local elite who directed its activities towards their own business interests.

In the mid 1980s, Nokondi diversified into direct business operations such as trout farming, plastics manufacturing, land and property development, motor vehicle sales

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and repair, forestry and timber sales, small business loan assistance, and agricultural management services. Over the years it sold its shares in local companies and concentrated on these other business operations. At of December 1989, Nokondi had investments of over K2.2 million with unappropriated profits totalling K742,107 and was paying dividends to the provincial government. However, from 1990, Nokondi began making losses and has reached a stage where future dividends are unlikely. Nokondi Investments Pty Ltd, the holding company, and most of its subsidiaries are faced with deficiencies in working capital. Most of the subsidiaries have become unprofitable and a drain on the holding company. Some of its subsidiaries are dormant and most of these have been recommended for liquidation by the Auditor-General. However, liquidations have not taken place and these subsidiaries are continuing to incur administration costs.

A partial strategic audit of the Nokondi Group of Companies revealed that it does not have a corporate mission, objectives, strategies, policies, procedures, programs and budgets to guide its operations. It lacks a properly qualified and experienced Board of Directors and top management. The top management are mostly engaged in the most routine and elementary day-to-day affairs of the enterprise. They are engaged in operational and tactical planning and activities instead of strategic planning and the attainment of strategic objectives. The end result is the non-compliance of statutory requirements of the Companies Act and a notice by the Registrar of Companies to deregister Nokondi Investments Pty Ltd and some of its subsidiaries. The strategic audit also revealed that there are certain opportunities and threats present in its external operating environment. It is necessary to identify these in order to safeguard its future and to work within the

opportunities present to prosper in its operations.

In Nokondi's present internal environment there are strengths and inherent weaknesses which require it to restructure to enable it to operate competitively and economically and to fulfil its stated purposes. From the identification of its strategic factors, Nokondi can identify where it can best operate and proceed to transform plans into reality to the benefit of its shareholders, the Eastern Highlands Provincial Government and its peoples.

Many enterprises in the private sector have taken advantage of strategic management—a process that examines managerial decisions and actions that determine the long-run performance of an enterprise. Strategic management comprises strategy formulation and implementation, evaluation and control, and emphasis on the scanning of the internal and external environment. This is done to identify the enterprise's opportunities and threats in light of its strengths and weaknesses. From this the top management can evaluate the strategic factors for the development of its corporate mission and objectives. This leads to the determination of strategies and policies, which are implemented through programs, procedures and budgets.

The problems of Nokondi are similar to the problems associated with the performance of public enterprises in Papua New Guinea and other developing economies. Most of its problems stem from the lack of qualified staff and management skills, difficulties in establishing evaluation and control standards, political pressure on management, faulty coordination and planning and operating in the wrong environment, excessive benefits and entitlements paid to personnel, lack of direction, foresight and forward planning, and the absence of corporate mission, objectives, strategies, policies, programs and budgets.

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It is apparent that strategic management principles must be adopted in Papua New Guinea so that public enterprises can plan in order to attain their founding objectives. With a strategic audit, management can pinpoint their problem areas. A strategic audit takes a corporate-wide perspective and provides a comprehensive assessment of the enterprise's strategic situation. It will also provide the requirements for alleviating the various problems an enterprise presently faces.

However, the findings from a strategic audit of one PDC cannot be applied across the board to other PDCs or public enterprises more generally. Each will have its own internal and external environments from which they can identify their strengths, weaknesses, opportunities and threats. Each should isolate its own strategic factors, which can be used to their respective benefits. Moreover, with the continuing increases in knowledge, skills, and technology and the changing geographic and demographic pattern in consumption of goods and services, public enterprises cannot operate as if time is constant. They must be receptive to change, creativity and innovation. Enterprises in the private sector have learnt that they must adapt or restructure to meet the ever-changing challenges and opportunities. Many leading corporations have failed because of their inability to adapt to change or to create the change that is inevitable for their continued existence.

Most of the public enterprises incorporated under the Companies Act, with government-appointed boards of directors and management, have ceased operation. Most provincial and local government business enterprises are plagued by problems such as inadequate control over property, monies, investments and accounts, lack of proper planning and investment, inadequate education and little or no business experience of boards of directors, absence of

properly educated and trained staff, and the absence of direction and decisions based on economic rationality. In most cases, the Auditor-General's Office has advised that investment and asset registers of provincial business arms have not been maintained.

This report card could have been written 15 years ago. Fifteen years later, the problems have not been rectified. More generally, given the lack of attainment of the envisaged objectives of public enterprises, all levels of government must take a fresh approach to these activities.

Conclusions

It has come to a stage where Provincial Development Corporations and national public enterprises must reassess the rationale for their existence. The Organic Law on Provincial and Local Level Governments provides for commercial investments as one source of finance for the provincial and local-level governments. However, if Provincial Development Corporations cannot lift their performance, there is no justification for their continued operation. The national, provincial and local governments know the facts but as shareholders and owners they are not receptive to creativity, innovation, challenges and risks. They are taking a conservative approach to facing challenges and change, or worse, they are failing to adapt to change or to create change.

Over the years there have been many calls to abolish the Provincial Development Corporations along with the privatisation of the national government's business activities. By adopting strategic management principles in the public enterprise sector, these enterprises can chart their own destiny and be responsible for their survival. By conducting management or strategic audits, public enterprises, including PDCs, can establish the strengths, weaknesses,

opportunities and threats inherent in their operating environments. From the strategic factors identified, public enterprises can streamline or restructure their operations or liquidate some of their subsidiaries and redirect resources to business activities that are economically feasible and able to deliver profits. Further, public enterprises, particularly, the Provincial Development Corporations, should reorganise themselves in terms of management and staffing so as to conduct business profitably as intended.

In conclusion, the national government has expended millions on its privatisation exercise. Though paid exorbitantly, the privatisation consultants have not realised the gravity of the present operating environment. Rather, they have performed complicated financial analysis on superficial issues. The answer is to enforce accountability and control regimes that will result in the realistic analysis of the operations of each entity.

Note

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