

Chapter 6

Nonministerial Government Bodies and Corporate Governance of Public Enterprises

It hardly matters whether a cat is black or white as long as it catches mice.
— Deng Xiaoping, 1963

THE SETTING

The decision tree shown and discussed in Chapter 1 is rooted in the question of how the government should intervene in the provision of goods or services once it has been decided that public interest is at stake and therefore that some form of government intervention is appropriate. (For simplicity, we will use the word *services* from now on to refer to both goods and services.) A first issue is whether the government should regulate the provision of the service by nongovernment entities or should itself be involved in such provision. (Regulation was discussed in Chapter 1 and the organization of regulatory bodies in Chapter 3.)

If government decides to get involved (in a capacity other than regulation), several choices come to the fore. The most immediate is direct provision of the service by a regular organ of government itself—a central ministry, provincial government, or municipality. This is not the only option, however. First, public functions need not be performed or delegated in their entirety; they can be separated into their component parts, some of which can then be assigned to different nonministerial government entities. Second, the public sector is larger than the government; enterprises that are owned in the majority by the state but do not form part of the government apparatus may be well placed to deliver a specific service to the public. Third, government can contract the delivery of public services to private business or nongovernment organizations. The traditional reflex of making government directly responsible for providing services whenever a case can be made for its involvement should therefore be resisted for this reason—and also because the technological, international, and financial developments in the second half of the 20th century (Chapter 1) have weakened the rationale

for such provision. How to choose from among the available options for public service provision depends mainly on the following factors: (i) the nature and importance of the public interest at stake; (ii) the type of service and its users; (iii) the technical and economic characteristics of its production; (iv) the administrative capacity of the government; and (v) the government's ability to exercise adequate control over alternative service providers. All alternative modes of service provision revolve, however, around a basic distinction and three fundamental criteria.

The basic distinction, which is valid for all services whether public or private, is among service *policy*, service *financing*, and service *delivery*. Government can be involved in all three or only one of these aspects, and then again fully or only in part. Hence, at one end of the spectrum, government may be involved only in the partial definition of service policies (e.g., designing urban transport routes to assure service to isolated neighborhoods). At the other end of the spectrum, government may set all policy, provide all the funds, and be directly responsible for delivering the entirety of the service (e.g., national defense). The service provision options can therefore be arranged along a *continuum of government involvement*—from direct and complete provision at one end, to the setting of only a few service policies at the other.

The *fundamental criteria* are good governance, efficiency, and equity. The mode of service provision chosen should, on balance, improve the four pillars of governance: accountability, transparency, participation, and predictability. Improvements in governance may occasionally need to be balanced against significant efficiency considerations or pressing social needs. But in general, as argued in Chapter 1, better governance leads also to higher efficiency and greater equity in the long term. The four pillars therefore provide the best guide for decisions on the modes of provision of services that are the responsibility of the state.

To narrow down the operational choice further, the financing required for providing a public service is expected to come, at least in part, from the government, normally from tax revenues.¹ The task of setting policies regarding standards of service, access, eligibility, etc., clearly pertains mostly to the government as well. In practice, therefore, the concrete choice most often revolves around the entity that should be responsible for service *delivery*. This choice is linked to the general distinction between policy formulation and policy implementation.

This first part of the book focuses on organizational questions, and the previous chapters have examined the organizational structure appropriate to government entities at national or provincial/local levels. In this chapter we examine the organizational issues arising from separating policy from implementation; the ensuing creation and control of executive agencies and other nonministerial bodies; and the question of corporate governance of public enterprises. (The option of contracting out public service delivery to private business or voluntary organizations is discussed under the heading exit in Chapter 13.)

The issue of sound corporate governance in the private sector—both financial and nonfinancial—is very important in all countries, especially in Asia where weaknesses in corporate governance and the financial sector were a major cause of the crisis of 1997–1999. However, this issue is outside the scope of a volume on public sector management and should not in any case be treated briefly and superficially. The interested reader is referred to a synthesis paper on corporate governance by Zhuang, et. al. (1999), and to the extensive references quoted therein.

SEPARATING POLICY FROM IMPLEMENTATION²

The Conceptual Issue

Experience suggests that to improve the efficiency of service delivery, it would be appropriate to distinguish between the policy-making function and that of implementation. (Indeed, as stressed in Chapter 1, it is precisely such a distinction that gives public sector management its instrumental characteristics.) Correspondingly, there is an argument for organizational differentiation between the two functions, which rests broadly on concerns about “focus” or “capture.”

The focus argument, generally made by politicians and public managers, is that policy making and service delivery are distinct functions, each of which can be performed better if it does not compete for attention and management time with the other. Thus, service delivery entities should concentrate on providing quality services efficiently, without the complication of having to evaluate the merits of alternative policies and standards. Similarly, policy making can be more focused, more rigorous, and sometimes even more adventurous without the distraction of operational problems. Regarding reforms in countries in the Organisation for Economic Co-operation and Development (OECD) (see Chapter 20), the debate on

the creation of “executive agencies” in the United Kingdom (UK) and similar developments in Australia, Canada, France, Iceland, New Zealand, and Norway is replete with references to the need for clear, defined targets that allow service delivery entities to concentrate on their core operational business.

The capture arguments, generally made by economists and academics, rest on the common premise that individuals always act according to their self-interest.³ In Niskanen’s argument (1973), because there is no competition for a public service and because growth of the public organization benefits both civil servants and politicians, an alliance between these two groups can obscure the real costs of the public service provided by the organization. Hence, public organizations that systematically tend to be larger than private entities would be in a competitive market under the same conditions, and policy making is captured by the self-serving bureaucrats involved in service delivery. The way to break up that alliance is to separate the political function of policy making from the administrative function of implementation. In a different vein, according to Dunleavy’s (1991) “bureau-shaping” model senior public officials are interested in maximizing the direct running costs of their agency and the funds available for contracting suppliers, and have much less interest in administering the resources passed on to them by other bodies. Hence, it would be in the interest of these officials to relinquish the direct management of some activities, as this would release them from peripheral responsibilities while allowing them to stay in the driver’s seat and continue to increase the resources that matter to them personally.

In either case, the argument is that public entities are prone to capture by the public officials who control them. Separating what the agency should do (policy) from how it does it (implementation) is seen as a key strategy for reducing this risk—whether the separation is viewed as the only route to breaking up the self-serving bureaucracy, or as a way to enable senior officials to bask in the glow of a policy advisory role, freed of operational responsibilities.

These arguments have both merits and weaknesses. The focus argument assumes that policy making is a clearly distinct activity that can be undertaken in isolation from implementation. However, in the real world, policy is partly made or significantly adopted during implementation. The capture argument presupposes that separating policy from implementation reduces the risk that policy will be formulated to suit the interests of the

avored civil servants and politicians—a plausible assumption. However, while separation reduces this particular risk of capture by public servants, it also produces the risk of capture by other interests. Since the quality of policy cannot be assessed before the results are in, the time lag between policy and implementation permits service policies to be tailored to suit particularistic ideological or business interests. When the consequences of certain policies become clear, usually after several years, the special interests who have benefited from them may be long gone. Boston (1995) suggests this as one reason why, even at the height of Managerialist Passion in New Zealand in the early 1990s, in practice policy advice was contracted out much less than might have been expected.

Moreover, where policy is detached from service provision but retained within the public sector, the risk of capture may diminish, but the risk of “ivory-tower” policy making increases. Policymakers not subject to the reality check of actual implementation are increasingly likely to formulate unrealistic or inappropriate policies. And, confronted with such policies, implementers who have no access to the policy-making process become increasingly prone to disregard *both* the unrealistic policies and the sound ones, and accountability is inevitably lost. Corruption risks may increase, too.

Finally, on the empirical side, despite the conceptual arguments in favor of separate organizations, there is no hard evidence that “single-roof” agencies (multipurpose entities that retain responsibility for both policy-making and service delivery) perform less well or are less readily held to account than their single-purpose counterparts (Boston 1996).

When is Separation Appropriate?

Nevertheless, returning to the initial proposition that some distinction between policy and implementation can improve both policy and implementation, it is helpful to summarize some of the conditions for which separate organizational arrangements may be suitable (albeit always with appropriate coordination and never with hard boundaries). Separate organizations for service policy and service delivery may be appropriate when

- policy can be fully specified in advance of action;
- the process of implementation does not raise policy issues;
- policymakers do not need advice from implementers;

- policy can be specified in sufficient detail to cover most eventualities; and
- policy can be specified in terms that allow close monitoring of implementation.⁴

For example, automobile licensing or garbage collection may meet the above criteria, but disease prevention or the production of nuclear weapons do not (Kettl 1993). Thus, while based on the conceptual arguments and counterarguments, the decision regarding organizational arrangements for service policy and service delivery must take into account the characteristics of the specific service—of course, in light of the country's circumstances, the institutional environment, and the government's administrative capacity.

In any event, *creating a demanding public*, through a deliberate strategy and continuing actions to raise public expectations, is more important in improving public services than fine-tuning the organization of the government entities that deliver them. Only an aware and aggressive public can provide effective contestability for *both* the public organizations and the entities to which the services might be subcontracted, and thus reduce the risk of capture by *any* vested interest, public or private. (Chapter 13 discusses the role of “exit” in public administration.)

“EXECUTIVE AGENCIES” AND OTHER NONMINISTERIAL GOVERNMENT BODIES

Executive Agencies

Although agencies charged with service delivery have existed for a long time, in the mid-1980s a number of OECD countries, generally in the British administrative tradition (e.g., UK, Australia, Canada, and New Zealand) began a move to formally separate the organizations and the personnel in charge of policy or implementation. “Executive agencies” (called by different names in different countries) were thus created for the delivery of public services, under policies and service standards formulated by the regular organs of government. At the same time, it was also felt that the commercial functions of government departments should be separated and run as regular commercial operations, as discussed later in this chapter.

In the UK, as the Prime Minister stated in 1988: “To the greatest extent practicable, the executive functions of government, as distinct from policy

advice, should be carried out only by units clearly designated...". Accordingly, many executive functions were hived off into autonomous "Next Steps Agencies," governed under a performance agreement with the competent ministry. The exercise was accompanied by measures to strengthen the policy function of ministries. In New Zealand, agencies have complete managerial autonomy in all matters including personnel, but must satisfy the terms of their output-based performance agreement with the Government. A more moderate system was adopted in Canada, where special operating agencies within ministries were given direct responsibility for results and correspondingly greater management flexibility. However, their employees remain part of the career civil service.

Executive agencies or similar entities have also been introduced in countries not of the British administrative tradition. The Republic of Korea has recently decided to adopt the British model of executive agency for selected government entities such as the national medical centers and the automobile licensing and testing stations. (There are 25 candidate agencies for the next phase in the Republic of Korea.) Similarly, France recently established many state services as special-purpose agencies called "responsibility centers" (*centres de responsabilité*). Jamaica has selected 11 pilot agencies for conversion into executive agencies. The African variant, in countries like Ghana, Kenya, Tanzania, Uganda, and Zambia, has been limited mainly to merging the customs and tax departments, and running them as more autonomous national revenue authorities. Similar experiments have been introduced in several other countries. (Annex II presents good practice in executive appointments to executive agencies which is generally applicable to state-owned enterprises as well).

Typically, as in a private company, responsibility for the day-to-day operations of an executive agency is delegated to a chief executive officer (CEO), who is responsible for all management and service delivery questions within the framework of the policy objectives and resources set by the responsible minister in consultation with the ministry of finance. In the UK, the agencies remain part of the civil service and accountable to Parliament through the minister. A variety of specific organizational arrangements have been followed in other countries. In all cases, however, creating executive agencies is normally accompanied by a shift to accrual accounting (Chapter 7)—necessary to measure the full cost of providing the service; some form of market testing or other exposure to competition; and, logically, measures to give the CEOs full autonomy and control over resources (including personnel management and compensation), in return for accountability for outputs. (See Chapter 18 on performance measurement issues in the public sector.)

As stressed earlier, whether or not it is appropriate to separate policy from service delivery depends on the nature of the service and on the circumstances of the country. And greater autonomy, obviously, always requires stronger monitoring and accountability. When executive agencies are appropriate, therefore, the basic conditions for their successful functioning are as follows

- effective monitoring and adequate measurement by the government of the performance of the executive bodies created;
- stronger coordination of the autonomous agencies, in the national interest;
- robust and effective audit, disclosure, and general accountability mechanisms; and
- the recognition by the agency management that the agency is still part of the public sector. Hence, managerial autonomy must be tempered by self-restraint and awareness of the impact of service pricing and personnel salaries on the access to services and on public perception. Agency managers should be selected partly on the basis of this attitude.

The above conditions are difficult to satisfy (and to maintain if they do exist to begin with). In countries that have gone the farthest along the executive agency and contractual route (e.g., New Zealand), the costs in terms of weaker accountability and fragmentation of state action have begun to emerge and be recognized, with sharp political repercussions.

In developing countries, it would be especially unrealistic to assume the existence of these basic conditions—particularly the capacity of the government to measure and monitor the performance of new, fully autonomous entities. In countries where the government can barely monitor the functioning of the present system (three out of four public enterprises in India, for example, do not even submit the accounts that form the basis for auditing them), moving to a system with far heavier monitoring requirements would be simply unthinkable. To do so would produce none of the advantages of the executive agency model and all of its costs and risks (including greater corruption)—and this in a deprived economic and social environment that can scarcely afford to shoulder more costs and accept greater risks. However, aside from creating separate and fully

autonomous executive agencies, some greater autonomy for the delivery of selected services may be helpful. Also, simplifying inefficient or complex rules and preventing political micromanagement of operational matters are almost always desirable.

Other Nonministerial Government Bodies⁵

During the last century, all countries have seen a rapid growth in the number and variety of public sector organizations that are outside the formal hierarchy of central government but operate under different degrees of government ownership and control. These organizations comprise state-owned enterprises (also called public enterprises), departmental enterprises, and statutory corporations. Public enterprises are expected to operate like private companies and are therefore part of the public sector but not of government. (Governance issues in public enterprises are discussed later in this chapter.) Departmental enterprises and statutory corporations operate within various legal and institutional rules and have varying degrees of autonomy, but are all subject to government control for specified results and operations, as well as to legislative oversight. Such nonministerial government entities can be set up concurrently under central and subnational levels of government, depending on the political structure of the country.

The growth of nonministerial government bodies is related to both of the trends discussed earlier—expanding government regulation and the drive for separate service delivery. Many nonministerial bodies are independent regulatory entities. And, once the government decides to continue providing a certain service, but not to proceed to a full separation between policy and implementation, it can assign the service delivery (and the corresponding staff) to a range of nonministerial bodies, with autonomy intermediate between that of a traditional ministerial department and that of an executive agency.

Nonministerial bodies vary considerably in their organizational structure. As noted, these bodies are distinguished from ministerial departments primarily by their greater degree of autonomy and more flexibility in resource use and personnel management. However, the term nonministerial should not be taken to mean that all such bodies are outside the ministerial hierarchy. In most cases, they are accountable to the minister concerned and to the legislature through the ministry. In Japan, for instance, the Prime Minister's Office controls several autonomous agencies such as

the Fair Trade Commission, Management and Coordination Agency, Economic Planning Agency, Science and Technology Agency, Environment Agency, National Land Agency and Defense Agency. In fact, many formerly independent public agencies in Japan were eventually absorbed by the latter.

Similarly, India has departmental enterprises that operate as manufacturing units and run commercial operations, such as the railways, postal services, public transport, and even defense supplies. Although these enterprises are nominally separate from the ministry, their senior officials do not have much greater autonomy than that allowed in traditional ministries, and their budget is part of the annual government budget voted by the legislature (although special funds may be set up to preserve the commercial character of the enterprises). This system is akin to that of the departmental and municipal enterprises in eastern Europe, which have proven difficult to reform.

In France, a variety of administrative authorities have arisen alongside the ministries in the last 20 years. They either protect the people's rights (those agencies interposed between the public administration and the courts, e.g., the Commission for the Control of Security Interceptions) or assist in market regulation (e.g., the Securities and Investment Board, the Telecommunications Regulatory Board, and the National Broadcasting Authority). Examples of similar agencies with regulatory powers can be seen in many developing countries, especially as a result of the need to regulate the outcomes of liberalization and privatization.

Of an entirely different genre are the crown entities in New Zealand. They are owned by the Government and provide goods or services on behalf of the ministerial departments, but are legally distinct entities established under separate enabling legislation. Functions entrusted to these entities vary from regulation and purchasing, to service delivery and even policy advice. The restructuring of the health sector, for example, led to the creation of four regional health authorities and one Crown Health Enterprise.

Similar to these crown entities are statutory boards. A statutory board is an autonomous government agency set up by special legislation to perform specific functions. It does not enjoy the legal privileges of government departments, but is given greater autonomy and flexibility by law. Singapore since the early 1970s has organized much of the work of government around

statutory boards, freed from the inefficiency-causing constraints of the civil service, and in the process has reduced the workload of the ministerial departments. The 26 statutory boards in Singapore perform functions related to economic development, the development of infrastructure and essential services, education, tourism, and sports and recreation activities. The salary scales, conditions of service, and provisions regarding promotion and discipline vary according to the functions of the boards. In fact, one reason for establishing the statutory boards was to stop the loss of talented civil servants to the higher-paying private sector. Similar entities set up as cooperatives or not-for-profit organizations in other countries operate autonomously, but with substantial ministerial control over their governing boards.

PUBLIC ENTERPRISES AND THEIR GOVERNANCE⁶

What is a Public Enterprise?

A public enterprise (PE) is an enterprise of which more than half is owned by the state, directly or indirectly. This seemingly obvious definition was arrived at in the late 1980s after much international debate, and is important insofar as it is based on ownership rather than control. Thus, if 51 percent of enterprise A is owned by enterprise B, of which 51 percent is owned by enterprise C, of which 51 percent is owned by the state, all three enterprises are by definition public enterprises, even though the state owns only 26 percent of enterprise B and 13 percent of enterprise A. In effect, therefore, a private enterprise can be controlled by the government, and a public enterprise by private interests (although in most cases PEs are effectively controlled by government). However, a definition based on ownership is the only one that permits public enterprises to be identified as a separate category. The criterion of effective control, on the other hand, would require a case-by-case analysis of the enterprise share structure, which would, moreover, have to be reviewed each time there is a shift in shareholders' alliances.

In many countries, especially the transitional economies, public enterprises have been the principal instruments through which the state has fulfilled its role. In developing countries their growth through the 1960s and 1970s was usually seen as indispensable for development, owing to the imperfections of the market mechanism in those countries. This original rationale for their existence was, however, stretched much too far in most countries, extending to state ownership of shoe manufacturing and ice-

cream factories on the grounds of national interest. Also, in many industries where the original rationale for public enterprises applied, rapid changes in technology and communications later intervened to render them unnecessary. Quite aside from ideological predilections and power shifts, the PE sector in most countries at the beginning of the 1980s was ripe for substantial pruning, rationalization, and privatization.

The Importance of Good Corporate Governance of PEs

This book is not concerned with privatization *per se*. Privatization is the process of moving assets *out* of the public sector, and by definition is not part of the management *of* the public sector. Moreover, privatization entails special processes, skills, and considerations, and is in many ways a separate area in its own right. Instead, for those PEs that are slated to remain in the public sector indefinitely and those whose privatization takes a long time, efficient and accountable mechanisms must be in place to manage, control, and protect the enterprise assets. These functions of *management, control, and asset protection* are subsumed under the label of corporate governance, and corporate governance of PEs is an important dimension of public sector management.

In the early 1990s, many countries made the fundamental mistake of viewing improvements in the corporate governance of PEs either as irrelevant to the basic policy of privatization or an obstacle to it. Their reasoning was peculiar: the worse off the public enterprises were, they thought, the greater would be the pressure to privatize them. The same frame of mind produced a headlong rush to privatize, for the equally peculiar reason that quick privatization was a good thing—no matter if it put valuable public assets in the hands of corrupt associates of public officials or enterprise managers, and at a tiny fraction of their true market value. These views affected primarily the transitional economies of eastern Europe and the former Soviet Union. In these cases, the rationale was mainly that rapid privatization was needed to make irreversible the change away from central planning. But the fallacy of viewing better governance of public enterprises as inimical to their eventual privatization has surfaced in other countries as well, and so has the failure to understand that “quick and dirty” privatization may or may not produce short-term efficiency gains but cause damage to the fabric of governance, which is far more costly in the long run.

Corporate Governance in the Context of Overall PEs Reform

Improvements in corporate governance of PEs are the internal side of PE sector reform. In brief, there are five *external measures of PE reform*.⁷

- *Privatization*, which reduces political influence on the management of the enterprise, transfers risk to the private owners, and can provide powerful incentives for efficiency gains, reduced waste, etc.
- *Strengthened competition*, through the removal of price controls, unnecessary regulation, and barriers to entry, compels better performance and enables a fairer assessment of the enterprise's efficiency relative to its competitors.
- *A hard budget constraint* and removal of subsidies induce efficiency improvements in the enterprise.
- *Financial sector reforms*, put the hard budget constraints into effect.
- *Restructuring* public enterprises consists mainly of the spin-off of competitive businesses and peripheral activities from the public goods core, the separation of operational functions from policy and regulatory functions, and the breakup of monopolies into smaller competing units.

Good corporate governance reinforces the external reform measures, as it helps enforce financial discipline, entails transparent rules instead of personalized interventions, and protects public assets from undue appropriation by insiders. Improved corporate governance is particularly important in developing countries and transitional economies because the other checks on the behavior of managers, such as rating companies, public assessment by financial investors, and the capital market, are still undeveloped. Indeed, improvements in corporate governance facilitate eventual privatization, but in the transparent and accountable manner necessary.

Elements of Corporate Governance of PEs

The main elements of corporate governance improvements are (i) corporatization; (ii) representation of the state by an agent; (iii) management improvements; (iv) the protection of shareholders' interests by the board of directors; and (v) performance and management contracts.

Corporatization

In many countries, the distinction between the roles of owner (principal) and manager (agent) of a PE has become blurred, contributing to the poor performance of enterprises and in some cases to corruption. Separating the roles of principal and agent is the first step in improving corporate governance. Corporatization is the setting up of an independent legal identity for the enterprise, separate from the identity of the state as owner, and usually entails placing public enterprise operations under the rule of commercial law like private enterprises.

Corporatization almost always results in a net increase in the efficiency of allocation and use of a country's economic resources. This was shown, among many other examples, in the case of Canadian Railways; British Steel; the German railways in 1994; and—possibly the most striking example—French telecommunications, which underwent a highly successful transformation in 1990 from a government department into France Telecom, a still public but corporatized entity functioning in a competitive environment.

For transitional economies and developing countries, besides the efficiency gains, corporatization of state enterprises can help establish clear title, and sort out the web of relationships among enterprises, their subsidiaries, and government ministries. This is a first step to establishing a hard budget constraint on the enterprises. Clear title also facilitates the disposal of assets and enterprise restructuring. Corporatization has often been a first step to privatization.

Some resistance to corporatization is to be expected but need not be a stumbling block if the process is open and well handled. In New Zealand, before every corporatization, company management invariably warned the Government of anticipated resistance from unions. The resistance, however, never materialized because the government effectively communicated to the workers the reasons for and benefits of the corporatization process, and provided suitable compensation to redundant workers. Similarly, the changes in French telecommunications were perceived as a veritable cultural revolution at first. The Government brought together the public, customers, and employees to discuss the problems of the sector as a whole and to consider future directions; launched a wide-ranging internal and external debate; negotiated with the unions; waged an intensive public information campaign; and amended the corporatization plans to incorporate the results of the dialogue.

In fact, experience generally shows that resistance to corporatization of PEs comes neither from the enterprise workers nor the general public if the process is managed well. Far stronger resistance comes from the enterprise management and from the sector ministry concerned—one reluctant to face direct accountability, the other unwilling to accept loss of power and influence over the operations of the enterprise. This alliance between bureaucrats and politicians is a good illustration of Niskanen's "capture" argument mentioned earlier, and corporatization—clearly separating the two interests—is in this case the best policy. For this reason, sector ministries should be excluded when designing the corporatization of enterprises in their sectors.

Selecting an "agent" to represent the state and establishing oversight

In its role as "owner" of an enterprise, the state must ensure that the enterprise is run and its investments are made with a view to maximizing the benefits to society. Of course, it must exercise that role through a specific entity. Different countries have attempted different solutions to the problem of who should exercise state ownership rights. Some have set up a public agency for the purpose, while others have split the responsibility among several existing agencies or entrusted the role to sector ministries or created a holding company. In general, the preferred solutions are those that establish a uniform set of procedures for all enterprises, without blurring lines of accountability or combining different roles in the same agency or relying on sector ministries.

To illustrate the problem of confused accountability, the *régies autonomes* of national interest in Romania are supervised directly by the relevant sector ministry, but with the involvement of other ministries, particularly the Ministry of Finance. The problem of multiple roles is exemplified by the case of the Russian State Property Committee (GKI). It holds the shares of both the PEs that are to be sold and those that are to remain in public hands, so that the pressures of privatizing some enterprises often pushed the task of managing the assets of the others into the background. In New Zealand, the move to allow the sector ministries to exercise ownership rights failed for two related reasons. First, the public enterprise in effect captured the parent ministry. (The Ministry of Civil Aviation, for example, routinely supported Air New Zealand's expansion plans.) Second, the shortage of business skills in government ministries prevented effective control. Indeed, experience has shown that the main opposition to a uniform organizational arrangement for PEs has come from

the attempt to preserve old patterns of personal relationships between enterprise management and sector ministries.

Austria and a few other countries tried to solve the problem of who should exercise state ownership rights by creating a “holding company,” that is, a corporation to hold the state’s shares in public enterprises as well as manage the enterprises themselves. Through such companies, those countries hoped to curb abuses by enterprise senior managers, and to reduce the operational interaction between the government and the state enterprises by interposing an intermediate layer. However, the holding company *itself* is not subject to effective governance by the state. Also, in practice a holding company tends to enlarge its influence by maximizing the budgets of the enterprises it owns, controlling competition, and protecting failing companies through cross-subsidization—rather than managing the enterprises on the basis of efficiency and market criteria. Finally, state holding companies are normally supposed to be transitional, but pressures from various stakeholders tend to prolong their existence. International experience points to the longevity of both the holding companies and their subsidiary enterprises, due to their capacity to bargain for and sustain the flow of government subsidies. The best example is the Italian state holding company *Istituto per la Ricostruzione Industriale* (IRI). IRI was obliged *by law* to dismantle itself within five years of its start in 1948, but this obligation did not prevent it from becoming one of the largest industrial conglomerates in Italy over the next 40 years.

Holding companies are therefore not a good general model. However, holding structures for managing decline in specific sectors might be feasible for a limited time, with appropriate accountability safeguards and an irrevocable sunset clause (following the German example of the *Treuehandtstalt*, which managed the reform and restructuring of the industrial sector of the former East Germany).

On balance, experience suggests that governments should set up a central public agency to exercise state ownership rights in public enterprises but without great management responsibilities. New Zealand, in fact, chose this solution after ministerial oversight failed (as mentioned earlier). The Government created a single asset management agency that was close to, but separate from, the Treasury. The agency concentrated on performing the shareholder role, and hired staff with business skills who learned to identify early signs of failure. Because the same agency monitors many enterprises, it is able to take a national overview of all the corporations, and it has so far been very successful.

Improving management of PEs

The effectiveness with which public enterprises are able to adapt to competition and fulfill their mandate depends largely on the integrity and competence of their top managers. However, these are qualities for which PE management has not traditionally been known. In the context of increased autonomy, it is important, therefore, to improve PE management as well, by retraining managers or training new ones; bringing in new blood, improving selection, and focusing on performance. Training issues are discussed in Chapter 12. We review below the latter two: selection and performance evaluation.

Entrenched personal relationships and opaque selection procedures are the most important problems that go with selecting top managers for PEs. It is a fact that governments exert substantial influence in the appointment or removal of senior managers of PEs. In France, for example, the Government in effect appoints the chief executives of Gas of France and Electricity of France by requiring board members to vote for a particular person. However, governments should have a major say in the selection, but not the only say. For example, in Canada, ministers participate with the PE supervisory board in selecting managers, who are then appointed by the cabinet.

Transitional economies and many developing countries are moving away from the traditionally opaque and discretionary processes of recruitment toward more transparency. In Hungary, company directors are appointed by the privatization minister, but the appointments are screened by a parliamentary committee, and other countries have made the selection competitive to ensure a more open process. However, it would be unrealistic to expect long-standing personal connections between top bureaucrats and top PE managers to simply wither away with the introduction of new formal rules. It is important therefore also to skew actual incentives in the right direction. In Poland, managers of enterprises in sectors open to privatization are given a percentage of the value they add to the firm in preparation for its privatization, as a strong positive incentive for efficiency.

Concerning manager's performance, the first reality to consider is the information asymmetry that exists between government outsiders and enterprise insiders. Without relevant information, performance evaluation becomes merely an elaborate "snow job." It is accordingly necessary for the government, as it introduces performance evaluation for PE managers, to

develop at the same time channels of reliable information, e.g., independent feedback by employees or consumers.

It must also be possible to remove nonperforming managers. This is especially tricky in public enterprises because of the close personal connections of the management with high-placed bureaucrats, as noted earlier. In the transitional economies of eastern Europe and the former Soviet Union in particular, many enterprise managers have acted as if they were the owners. More generally, the balance of power between the sector ministries and the PE managers is often tilted in favor of the latter, who have direct access to assets and resources. To improve accountability and thus PE performance, four approaches can be helpful.

- Develop independent channels of information for the government, particularly among the clients of the enterprise.
- Empower one entity to remove nonperforming managers, separate from the sector diversity.
- Give sufficient status to that entity by raising its pay and prestige of its members, and assure it of the highest level political support;
- Decouple the managers from their traditional patrons in the ministries.

Protection of shareholders by the board of directors

In both public and private enterprises, the board of directors is the intermediary between the owners and the managers that protects shareholders' interests by ensuring management performance and accountability. The state as owner can either delegate the control function to a board of directors, or can negotiate performance (or management) contracts. In general, the choice between performance contracts or boards of directors depends on the availability of competent persons of integrity to serve as members of boards on the one hand, and, on the other, on the government's capacity to prepare, monitor, and enforce performance contracts. Performance and management contracts are discussed in the next section. Immediately below we summarize the results of international experience with boards of directors of PEs.

The board of directors must be created in such a way as to ensure an arm's length relationship between the PE and the government. With this in mind, some countries (e.g., Germany, Hungary, Netherlands, Poland, and Ukraine) have adopted a two-tiered board structure, while others (e.g., France, Italy, and Romania) follow a unitary structure. The two-tiered board

consists of a supervisory board with nonexecutive members appointed by the government, and a management board with executive members nominated by the supervisory board itself (or jointly with the government). A unitary board has both executive and nonexecutive members. Generally, the unitary system is simpler, clearer, and avoids conflicts between the two boards. In developing countries, which often lack qualified persons to serve on enterprise boards, the system is also more realistic. However, the choice between a unitary and a two-tiered board depends on the characteristics of the country and the preferences of the government. The widespread adoption of the German model in eastern Europe, for example, is explained largely by the desire to involve workers in company governance (they select some of the members of the supervisory board).

To be effective, all boards must walk a fine line between conflicting demands. They must exercise their legal oversight responsibility, but without stifling the initiative of the management; and they must represent the interests of the state, but without becoming involved in the operational affairs of the company. Their capacity to walk that line depends far less on the structure of the board than on the capacity of its members, the quality of the information and resources they have, and the degree of government support they receive.

An examination of the way the boards of directors of public enterprises function in transitional economies and developing countries shows a number of common problems, most of which can be traced back to the difficulty of establishing effective board control over PE managers. This difficulty has four main causes.

- First, governance weaknesses make for easier capture of board members by enterprise managers (who control information, valuable assets, and patronage possibilities). In most developing countries, managers retain a great deal of leeway within the existing rules, and—protected by their patrons in the sector ministries—are rarely punished for violating the rules.
- Second, lack of experienced board members weakens supervision. The limited availability of skills and the need to establish boards for a large number of PEs tax the system's capacity to staff the boards properly.
- Third, many countries draw PE board members from among current and former government employees, who do not have the business expertise required and may rely on the PE for political patronage or a source of future employment or both.

- Finally, in many countries, board members have insufficient incentives and resources. They are often very poorly paid, lack the necessary supplies, and do not have enough funds to travel and inspect company operations.

Performance and management contracts

The alternative to a board of directors is a performance or management contract. Performance contracts are agreements between governments and *public* managers; management contracts are between the government and *private* managers. Performance and management contracts respond to different needs and have distinct requirements. Performance contracts also go by other names, such as contract plans, program contracts, memorandums of understanding, signaling systems, and public utility licenses.

In a *performance contract*, the government sets strategic objectives and the public managers decide on the operational strategy to achieve those objectives. The process of developing performance contracts is beneficial in itself, as it leads to a dialogue on facts and helps each party become familiar with the needs and problems of the other. Most performance contracts are indicative rather than prescriptive, and their success depends more on genuine commitment by both sides than on the degree of contract detail.

Of the various experiences with performance contracts, generally the most disappointing have been in developing countries (especially in Africa). In transitional economies they have been of some utility. The effectiveness of performance contracts depends, among other things, on the availability of comprehensive and reliable information, strong administrative capacity, and a pool of highly competent and committed public managers. It is not surprising therefore that by far the most successful experience with performance contracts is that of the Republic of Korea and New Zealand (Box 6.1). More mixed has been the experience of the People's Republic of China (Box 6.2). A hypothetical illustration of how an actual performance contract is drafted is shown in Box 6.3.

Box 6.1
Successful Performance Contracting
in the Republic of Korea and New Zealand

The Republic of Korea has had a highly successful experience with performance contracts as well. As part of the 1983 reform of public enterprises (PEs), the Government entered into performance contracts to permit a comparative evaluation of the short- and long-term performance of all PE managers. Rewards are linked to performance, as evaluated by independent auditors. Performance indicators are used to measure results against the trend, as well as against agreed targets. Seventy percent of the indicators are quantitative and are set annually; these include profitability and productivity, as well as sector-specific indicators. Qualitative indicators include corporate strategy, research and development, and improvements in management information and internal control systems. These indicators are combined into a single public profitability measure using a weighted average of performance with respect to each indicator.

The New Zealand approach to performance contracting, used since 1986 and expanded in the 1990s, includes a statement of corporate intent for each state-owned corporation, which is redrafted each year to define precisely the goals, targets, and subsidies for noncommercial goals. Improvements in productivity, profits, and customer service have been significant, and in some cases dramatic, and lower prices have been instituted.

Box 6.2
Performance Contracts in the People's Republic of China

The People's Republic of China was the first transitional economy to introduce performance contracts. Beginning in 1987, a variety of contracts were introduced under the contract responsibility system. All of these gave managers of industrial public enterprises (PEs) greater control over enterprise operations in return for meeting profit remittance targets. Many contracts also gave the PEs greater autonomy over sales and permitted managers to grant employee bonuses and hire contract workers. In 1992, a government directive stipulated that contracts could grant managers additional autonomy, including the rights to make production decisions, determine prices for outputs and inputs, purchase goods and materials, make investment decisions, hire workers, and determine wages and bonuses.

The extent to which these contracts have improved performance is difficult to assess. In general, enterprise performance improved, but increasing competition from the nonstate sector may have been the key factor. Performance contracts in the People's Republic of China, moreover, while providing incentives for good performance, have failed to penalize bad performance.

Box 6.3

Drafting Performance Contracts with State Enterprises: An Illustration^a

At the start of the year the enterprise signs a performance agreement setting the following targets.

Performance Agreement Targets

Criterion	Unit	Weight	Criterion Values				
			1 Excellent	2 Very Good	3 Good	4 Fair	5 Poor
Gross Profit	million	.50	400	385	350	300	250
Exports	million	.30	80	70	65	60	55
Project Implementation	month	.20	6	8	12	14	16

At the end of the year the achievements of this enterprise are as follows:

- Gross profit: 385 million
- Exports: 65 million
- Project implementation: 6 months

Accordingly, the weighted score is 2.10, as shown below. A score of 1.0 would indicate excellent performance and a score of 5.0, poor performance. The weighted result is the key concept of all performance contracts, for it measures the ability of the enterprise to meet its commitments and allows the evaluation of management.

Calculation of Composite Score

Criterion	Unit	Achievement	Raw Score	Weight	Weighted Raw Score
Gross Profit	million	385	2	.50	1.00
Exports	million	65	3	.30	.90
Project Implementation	months	5	1	.20	.20
					2.10

^a Adopted from an actual agreement prepared by Prajapati Trivedi of the World Bank for Thailand.

Management contracts can take the form of a lease (where the government receives a fixed rent), a concession (where the government is responsible for fixed investments), or a joint venture (where the private manager owns part of the equity). Management contracts in the developing world, especially of the lease or concession type, have often proved to be a blank check to the private management firm to milk the company out of its assets (sometimes in collusion with some high officials) and leave it in far worse shape than before. Partly because of this unsavory experience, no government has adopted management contracts as an important instrument of PE reform, and in no country do such contracts cover a large proportion of PEs. Joint ventures are a little better, but still risky.

However, management contracts can be a useful instrument in particular circumstances, when

- it is particularly costly for government to manage the enterprise directly;
- enterprise technology is not changing rapidly;
- output is homogenous;
- the supplier has an international reputation to protect and quality is easily compared (as with hotels);
- the enterprise faces severe managerial difficulties and needs to rehabilitate a major part of its operations, or government wishes to put in order the financial affairs of a state-owned enterprise before privatizing it; and, most importantly,
- government has the capacity to design a good contract and monitor it closely.

KEY POINTS AND DIRECTIONS OF IMPROVEMENT

Key Points

Direct government delivery of public services is only one option for government intervention. Public services may be also delivered by autonomous public entities, private businesses, or nongovernment organizations (NGOs). The basic distinction is between service policy, service financing, and service delivery. Depending on the nature of the service and on administrative capacity, appropriate government involvement is a continuum—from full and direct involvement in all aspects of service provision to only setting a few basic rules.

The distinction between the policy function and the implementation function has recently led some developed countries to a complete separation between the government organization charged with setting policy and an executive agency entrusted with service delivery—fully autonomous and responsible for results. The conceptual justifications for such complete separation have been the need for the leadership to focus on policy without operational distractions, or the risk of capture of policy by the bureaucracy that delivers the service. However, when policy is fully divorced from implementation, a policy focus can easily become a policy ivory tower. Also, while separation reduces the risk of capture by bureaucratic insiders, it creates a new risk of capture of the public service by private outsiders. When, as in developing countries, government has a weak capacity to measure results and monitor behavior of autonomous entities, the executive agency model is especially hazardous.

Aside from executive agencies, the drive for alternative modalities of service delivery has led to the growth of various nonministerial government bodies. Because they are intermediate between direct service delivery by a regular ministry and a fully autonomous executive agency, such bodies have more autonomy and flexibility than the former but are subject to a greater degree of government control than the latter.

Historically, PEs (i.e., enterprises majority-owned by the state, directly or indirectly) have played an important role in the continuum of service delivery. Their rapid and largely excessive growth in the 1960s and 1970s, combined with the technological and informatics advances of the 1980s and 1990s, has produced in most countries a bloated parastatal sector badly in need of reforms. Among these reforms, privatization is the best known and often the most appropriate. However, a number of public enterprises will remain in the public sector indefinitely, and others will take a long time to privatize. Clearly, there is a need for efficient ways to manage and control these enterprises and protect their assets—corporate governance. Corporate governance is therefore a component of public enterprise reform, not an alternative to reform. The main dimensions of corporate governance are as follows.

Corporatization is the setting up of a separate legal entity for the enterprise, which thus becomes subject to ordinary commercial law. It has resulted in major efficiency gains, and has the added advantage for developing countries and transitional economies of classifying legal title and sorting out property rights. Resistance to corporatization comes typically

from enterprise managers and their patrons in government, rather than from the employees, if the corporatization process is managed fairly and transparently.

The problem of *selecting an agent* to represent the state has different solutions. Experience suggest that the best solution, on balance, is to create a central public agency to exercise the state ownership rights in the public enterprises, but without managing the enterprises themselves.

The challenge of *improving management* can be met primarily by better selecting managers and evaluating performance, both of which call for developing independent channels of evaluation, locating the authority for managers' selection and removal in one entity, and severing the links between managers and their patrons in the ministries.

The main options for an arm's length relationship between the government and the enterprise, which still protects the public interest and the enterprise assets, are a board of directors and a performance or management contract. There are various ways to structure *boards of directors*, but the common problem is to assure effective board control over enterprise management. The effectiveness of *performance contracts* (between the government and a public manager) depends largely on the availability of reliable information, strong administrative capacity, a pool of competent public managers, and genuine commitment from both sides. Consequently, performance contracts have been effective only in the few countries that possess those characteristics, and ineffectual elsewhere. *Management contracts* (between the government and private management groups) have often been a blank check for private managers to strip the company assets or milk its profits, and are to be avoided unless they entail large equity participation by the private managers. Even then, close monitoring by government is a must, and management contracts are therefore extremely risky in developing countries.

Directions of Improvement

Because direct government delivery of public services is only one of several options, developing countries should periodically reexamine the effectiveness of direct delivery of public services relative to possibilities for the involvement of private businesses and NGOs. This is especially advisable in local government, which is normally responsible for providing those services that are generally more suitable for nongovernment delivery. Close monitoring is needed, however, to prevent service quality and access from declining as a result of "capture" by powerful local private interests.

A similar middle-of-the-road approach is advisable for handling the relationship between service policy and implementation. A sharp separation between the two functions is inadvisable in most countries, and the creation of an autonomous “executive agency” exclusively responsible for service delivery is an especially bad idea in developing countries. However, the two functions are in fact distinct. It is advisable for countries, within the existing organizational arrangements, to consider ways in which to sharpen the focus on formulating good service policy and standards, while at the same time giving more flexibility to government managers in the actual delivery of the public services. The appropriate improvements will depend largely on country characteristics, the service in question, and the organization of the government. Generally, however, the issue of how to give greater freedom to government managers to deliver services more efficiently should be viewed in conjunction with budgetary procedures (especially the desirability of some flexibility in reallocating budget within the same category) and the mechanism evaluation of public managers’ performance.

In a majority of developing countries and transitional economies, the PE sector as a whole is a drain on the public finances, without an offsetting benefit in terms of providing services to groups that would be underserved by private business. There is therefore a strong case for *both* reducing the size of the sector through privatization and improving the efficiency and responsiveness of enterprises that remain in the public sector. Because privatization carries special risks in countries with governance weaknesses, developing countries should pay close attention to the process of privatization, with all the expert assistance they can obtain. External donor agencies, too, need to shift their focus from the quantity to the quality of privatization, from the “what” to the “how” of the handling of privatization.

Concerning the improvement of the efficiency and responsiveness of the remaining PEs, reforms in corporate governance are necessary in many developing countries and most transitional economies. In this area, the selective approach recommended above is not desirable because corporate governance reforms and procedures must be uniform for the entire sector.

The following measures, among others, can help ensure the benefits of corporatization.

- Establish a single corporate form and avoid both hybrid organizational solutions (which blur accountability) and sector-specific schemes (which permit the ministries to retain undue influence).

- Ensure open communication and credibility, particularly the employees.
- Monitor the activities of reluctant enterprise managers during the corporatization process.

In selecting an agent to represent the state, it is preferable to establish a single central public agency rather than split the oversight role among different agencies, or entrust it to an existing entity with a different mandate. Such a central public agency would be responsible for the oversight of every PE, but the regulatory function should be vested in separate agencies to avoid conflicts of interests.

When considering the creation of a board of directors, the following are needed.

- First, evaluate whether a board is preferable to other mechanisms of effective control, based on the availability of good board members and the size and nature of the enterprises in question.
- Clarify board objectives and give the board adequate authority.
- Select independent and competent board members representing different constituencies—predominantly from the private sector.
- Help boards organize themselves and provide training where lacking. The formation of an institute for directors to provide such training is worth considering, ideally on a subregional basis for several countries.
- Provide adequate incentives and accountability systems. Board members' remuneration must be competitive with that of the management of enterprises, and procedures must be established to review board members' performance, including in particular the robustness of their supervision of enterprise management.

Performance and management contracts are not a panacea and are in most cases problematic. Therefore

- performance contracts should be used selectively;
- the information on which the enterprise performance targets are set should be made available to both parties;
- an independent body should be established to act as an arbiter and conflict resolution mechanism;

- performance indicators should be derived from an agreed three- to five-year plan, and performance targets should be adjusted only when major factors outside the control of managers change;
- once performance targets have been set, managers should be free to manage, subject only to general government policies and contractual provisions;
- if circumstances are not conducive to detailed performance contracting, a performance agreement can still provide the basis for a constructive dialogue on performance, provided that significant positive or negative consequences result for the enterprise managers; and
- because of the severe risks of management contracts with private managers in developing countries, when it is absolutely necessary to enter into such contracts the government should consider hiring an independent external entity to monitor and supervise the management on its behalf.

Annex II

GOOD PRACTICE IN EXECUTIVE APPOINTMENTS TO NONGOVERNMENT PUBLIC BODIES⁸

Appointments

Appointments to the boards of executive public bodies should be made on the basis of merit, to ensure balance of relevant skills and backgrounds.

Responsibility for appointments should remain with Ministers, advised by committees that include independent members.

A public Appointments Commissioner should be appointed to regulate, monitor, and report on the public appointments process.

The process should be open and dependents should have to justify any departures from best practice. Job specifications should be published and a wide range of candidates should be sought. The suitability of each candidate should be assessed by an advisory committee.

Propriety

Each executive should have a code of conduct for board members, and a similar code for staff.

A consistent legal framework should govern propriety and accountability in public bodies.

Openness and independent monitoring are important safeguards of propriety and should be extended. In particular, staff should have a confidential avenue to raise any concerns about issues of propriety.

The responsibilities of accounting and audit officers for propriety as well as financial matters need to be emphasized.

Appointments Procedures

Defining the task (job description) and the qualities sought ("person specification")

- Job descriptions and a summary of the key qualities sought ("a person specification") should always be documented, be publicly available, be sent to all candidates, and be held for scrutiny by the Public Appointments Commissioner.
- A description of the appointments process should be similarly documented and made available.

Identifying a field of candidates

- A wide field of candidates should be obtained by making appropriate use of
 - advertising—both for general and individual posts;
 - executive search;
 - consultation with interested bodies, which should always include any recognized consultative/user groups and, for local appointments, the elected local authorities; and
 - maintaining and using databases of interested and appropriate people.
- It should always be possible for anyone to nominate anyone, including himself, and this should be made clear in all advertising and publicity.

Selecting a short list and recommending candidates to ministers

- The sifting of candidates should be undertaken or overseen by committees or panels with independent members.
- Any candidate recommended to ministers should have been approved as suitable for the post by the committee or panel, taking up references where appropriate.

Choosing the preferred candidate(s)

- Appointments should be based on merit to achieve a balance of relevant skills and backgrounds on the board.
- Candidates should not normally be appointed without having been interviewed either by the advisory committee/panel or, in the case of more senior appointments, by ministers or senior officials.

- Reappointments should not be automatic. The performance of the postholder should be reviewed.

Confirming the appointment

- All appointments should be announced through press notices and other suitable means—either individually or for minor appointments in quarterly batches—and departments should report annually on their procedures.
- Sponsor departments and individual NDPBs and NHS bodies should have lists of their members that outline who they are and when their term expires.

Openness

Access to information

- Adopt a specific code on access to information incorporating the government's code, and building on it where possible.
- Establish clear and published procedures for implementing the code, including
 - well defined criteria for information that will be withheld, which should be cited whenever a request for information is refused;
 - standards for speed of response to inquiries (e.g., information to be provided normally within 21 days or correspondent informed of likely date);
 - an appeal mechanism, within the organization initially and then either to the ombudsman, or (where the body does not come under the ombudsman's jurisdiction) to another independent person appointed for the purpose; and
 - a policy on charging for information provided (with requests requiring only a reasonable amount of work incurring no charge).
- Provide information on executive salary levels, and average staff salaries.

Meetings

- Open meetings to the public or make minutes of meetings (and main committees) available for public inspection or describing key discussions and decisions in newsletters etc. after each meeting. Some items may be deemed confidential but the criteria for doing so should be published.

- Open to public and media a well-publicized annual general meeting, allowing an opportunity to question the board members on the performance and activities of the body.
- Other opportunities should be taken to involve and inform the public and organization with a major interest on major issues, through consumer groups, user forums, or public meetings.

Publications

- Annual reports and accounts should include information on the role and monolith of the executive body, long-term plans or strategy; membership of the board, performance against key targets; targets for the forthcoming year; their commitment and approach to open government; and where further information can be obtained (including how to inspect the register of board members interests and how to pursue complaints).
- Publish other important information depending on the body, including key statistic, the results of consultation exercises, details of key procedures (e.g., criteria for allocating public funds), and reports of regulatory investigations.
- All publications should be made as widely available as possible, such as through public libraries, and all annual reports and accounts should be deposited in the official government.

NOTES

¹ For major infrastructure projects, however, the forecast needs are so huge that most of the financing will need to come from private sources.

² We are grateful to Nick Manning for contributing much of the substance of this section. His contribution has been edited to fit the structure and thrust of the chapter, and combined with other materials. The authors claim responsibility for the views expressed here and for possible errors.

³ See especially the contributions of Niskanen and Dunleavy, summarized among other theories in Pollitt, Christopher, et al. (1998).

⁴ As Stewart (1996), puts it, “separation of policy-making and implementation will not prove the elixir that will resolve many of the problems of public management... It should be seen as *one approach* rather than *the approach*.”

⁵ This section relies on Commonwealth Secretariat; and Nellis and Shirley (1991).

⁶ This section relies largely on Schiavo-Campo and Pannier (1994), “Corporate Governance of Public Enterprises: The Comparative Experience.”

⁷ See Pannier and Schiavo-Campo (1994) for a fuller discussion.

⁸ Adopted from the first report of the UK Committee on Standards in Public Life.