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The Interdepartmental Action Programme on Privatization, Restructuring and Economic Democracy

Privatization and management development in Africa

Cornelius Dzakpasu

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Preface

The main thrust of privatization programmes is to increase the efficiency of the economy, reduce government subsidy costs, broaden direct ownership of productive assets, and reduce and reorient the role of government to concentrate on the provision of critical social and economic infrastructure. Whatever methods are adopted in a privatization process, the realization of its goals rests on *effective management* of the privatization process itself as well as of the privatized enterprises afterwards. In the absence of a fully developed, supportive and mature enabling environment characterized by a well developed capital market, investment codes, a flexible labour market, and adequate infrastructure facilities, effective *managerial practices* became even more crucial to the attainment of privatization goals. In view of short-term negative consequences of privatization such as unemployment due to retrenchment, the management of privatized enterprises and of restructured state-owned enterprises also needs to be socially responsible. Achieving economic goals, maintaining competitive advantage, and being socially responsible at the same time requires *innovative managerial practices*. *Innovative managerial practices* are needed not only to seize opportunities but also to face the social and economic challenges created by privatization.

The purpose of the three studies that form the basis of this report is to identify good managerial practices and draw lessons. The studies are based on the privatization experience of Ghana, the United Republic of Tanzania and Uganda. These countries have established institutional frameworks to plan, manage and monitor the results of their privatization policies and programmes. The relevant institutions are: the Divestiture Implementation Committee (DIC) of Ghana, the Public Enterprises Reform and Divestiture Secretariat (PERDS) of Uganda and the Parastatal Sector Reform Commission (PSRC) of the United Republic of Tanzania. A comparative analysis of these institutions, their effectiveness in achieving their respective aims, and their structuring and efficiency in managing the privatization programme, provide broad guidelines for similar institutions elsewhere.

Moreover, privatization by itself, without dramatic improvements to the overall management system and practices, and the competence levels, attitudes and motivations within the privatized enterprises, does not result in improvement in their performance. The impact of privatization on management can be traced and enhanced at several logical stages: privatization has an impact on organizational restructuring and managerial practice; this can lead to changes in managerial styles, competencies and attitudes; these in turn create new demands for management development institutions (MDIs) to meet. Recognition of the strong links between privatization and changes in managerial practice can encourage a proactive approach in developing the necessary results-oriented management development programmes in parallel or even ahead of the privatization process.

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Abbreviations used in the report

DIC	Divestiture Implementation Committee (Ghana)
DRIC	Divestiture and Reform Implementation Committee
ECG	Electricity Corporation of Ghana
ERP	economic reform programme
MDI	management development institutions
MIS	management information system
NRM	national resistance movement
PERD	Public Enterprise Reform and Divestiture
PERDS	Public Enterprises Reform and Divestiture Secretariat (Uganda)
PMU	parastatal monitoring unit
PSRC	Parastatal Sector Reform Commission (The United Republic of Tanzania)
RDP	Rehabilitation and Development Plan
SCOPO	Standing Committee on Parastatal Organizations
SOEs	state-owned enterprises
SSNIT	Social Security and National Insurance Trust
TACC	Tanga Cement Company Limited (The United Republic of Tanzania)
TBL	Tanzania Breweries Limited
TCC	Tanzania Cigarette Company Limited
TZS	Tanzania shillings

1. Introduction

This paper is based on studies carried out in Ghana, the United Republic of Tanzania and Uganda in May 1997 with the objective of determining the impact of privatization on management development. Prior to initiating their respective privatization programmes, the three countries had a sizeable number of state-owned enterprises (SOEs), the performance of some falling below expectations; one of the major reasons cited for their unacceptable performance was poor management.

The paper consists of five parts. Part one summarizes the rationale, process and strategies for privatization from which the definition of privatization is derived; part two describes the institutional framework for privatization; part three assesses the impact of a privatization programme on enterprise management; part four describes the impact of the preceding on management development service providers' (e.g., training institutions) programmes and activities; and part five, the conclusion, provides a framework for action.

In the three countries, the term "privatization" has had many definitions and connotes different processes, measures and strategies.

— Divestiture (as privatization) can be defined as the process by which the State sells all or part of its ownership of state-owned enterprises (SOEs) to private investors, local and foreign. The process represents a shift in the economy from a centrally planned system towards a market-oriented system and is intended to promote greater efficiency in the operations of enterprises.

— The term privatization can also mean any measure which results in the transfer of ownership and/or control over assets or business activities from the public to the private sector. Typically, privatization involves the transfer of SOEs engaged in areas such as manufacturing, agricultural production and the provision of public services and utilities — water, transportation, hospitals, telecommunication services, broadcasting, electric power, etc. — to entities that are completely or partially owned by or managed or operated by the private sector.

— Privatization is also the major mechanism by which an "overextended" State reduces its direct involvement in the economy. It may take any of the following forms: (i) full or partial sale or transfer of ownership; (ii) sale of assets; (iii) leasing arrangements; (iv) contracting out; and (v) liquidation of enterprises.

In summary, privatization can be a composite of policies, measures and strategies. As a policy, it involves the State's withdrawal from direct intervention in the economy; as *a measure* it affects the transfer of assets or business activities embracing manufacturing, agriculture, selected public services and utilities, from the public to the private sector; and as a *strategy* it can take the form of one or all of the following: sale or transfer of ownership, sale of assets, leasing arrangements, or contracting out and liquidation of enterprises in order to achieve a greater degree of efficiency and effectiveness.

In the three countries, privatization is a component of an overall economic reform programme (ERP) which seeks to shift production of goods and services from the public to the private sector. In Uganda, when the national resistance movement (NRM) Government came into power in 1986, it inherited an economy that had been shattered by years of civil strife, political instability, economic neglect and mismanagement. The extent of damage to industrial facilities, infrastructure, agriculture, etc., was such that it would require years to repair and rehabilitate these to acceptable productive levels. In addition to destruction of the economic base, large numbers of skilled personnel and experienced administrators left the country due to fear caused by repressive regimes. Those that remained were deeply demoralized by years of misrule, insecurity and economic hardship. In this context, the poor performance of state-owned enterprises became a budgetary burden and a deficit financing drain away from both domestic and foreign capital markets.

The NRM Government adopted an economic recovery programme (ERP) designed to stabilize the economy. This was followed by the Rehabilitation and Development Plan (RDP) in May 1987, later converted to a three-year rolling plan. The plan attracted substantial donor assistance which enabled the Government of Uganda to put in place measures to expand the local resource base; the plan succeeded in rebuilding the socio-economic infrastructure, and returning the country to a path of economic growth and sustained development.

In designing its ERP, the Government recognized the paramount need to reduce the number of SOEs and improve the performance of those remaining through privatization and restructuring. According to a 1993 survey of foreign direct investment, the reforms undertaken and the incentives provided have made Uganda more attractive to investors than any other country in the region. Despite this, however, lack of infrastructure such as power, serviced land, skilled manpower and telecommunication bottlenecks are still perceived as major deterrents to investment. The Government has put in place programmes to deal with these constraints.

For the three countries under review, the objectives of their SOE's reform programmes and their privatization policies are broadly similar and can be summarized as follows:

— improve the operating efficiency of enterprises currently in the SOE sector and their contribution to the national economy;
— reduce the burden of SOEs on the government budget;
— expand the role of the private sector in the economy, allowing government to concentrate public resources on its role as provider of basic public services, health, education and social infrastructure;
— encourage wider participation by people in the ownership and management of business;
— create a more market-oriented economy;
— secure enhanced access to foreign markets, to capital and to technology; and
— promote the development of capital markets.

2. Institutional framework for privatization and its effectiveness

In all three countries the respective governments enacted laws to provide legal support for the establishment of an institutional framework for privatization. The Divestiture Implementation Committee (DIC) of Ghana was set up under the Divestiture of the State Interests (Implementation) Law, 1993 (PNDC Law 326). In the United Republic of Tanzania, the Public Corporations Act of 1992 was amended in 1993 to facilitate the establishment of the Presidential Parastatal Sector Reform Commission (PSRC) as an autonomous organ for implementing SOE reform policies. Similarly the Ugandan Public Enterprise Reform and Divestiture (PERD) Statute of 1993 provides for the establishment of the Divestiture and Reform Implementation Committee (DRIC).

The membership of DIC (Ghana) comprises ministers of state, trade unions, and institutional and private sector representatives. The day-to-day management of the divestiture programme is undertaken by a secretariat headed by an executive secretary. The members of DIC meet regularly to consider specific transactions negotiated by the secretariat, submitting, as applicable, recommendations to the President's Office for approval. The DIC is assisted by specialized subcommittees such as on mining, cocoa and coffee plantations which may be set up for specific activities in specialized cases. At the core of the managerial aspects of the implementation strategy are information collection and analysis of operational figures and documentation, and the preparation of a company dossier on each SOE listed for divestiture. The decision as to the preferred mode of divestiture is made on the basis of available information.

The Ugandan DRIC is composed of ministers of state, three eminent Ugandans, the Chairman of the Uganda Investment Authority, the Chairman of Parastatal Bodies, and the Attorney-General. The Minister of State for Finance (privatization) has overall responsibility for the PERD programme with line ministries playing key roles in policy and implementation activities. The PERD secretariat responsible for implementing DRIC decisions was dissolved and replaced by a parastatal monitoring unit (PMU) under the responsibility of the Permanent Secretary of the Ministry of Finance.

In the United Republic of Tanzania, the Public Corporations Act, 1993, which created the PSRC, also specified the roles to be played by the National Assembly, President, Cabinet, Attorney-General, Minister of Finance and sector ministries. The PSRC carries out its duties as the secretariat with executive powers on behalf of the Ministry of Finance (Treasury). All final decisions on privatization and restructuring have to be approved by the Government (cabinet). The involvement of the cabinet is indicative of the fact that the PSRC is not a one-stop centre but rather a coordinating body for privatization of SOEs.

In order to evaluate the outcome of divestiture policies and programmes in achieving the goals of privatization, performance needs to be assessed against three criteria: (i) the number of SOEs privatized; (ii) acceptance by the general public of the privatization of particular SOEs (public acceptance is related to transparency of the process and general accountability to the public); and (iii) the impact of the privatization programme on enterprise management and performance.

In Ghana, prior to the privatization programme there were over 300 SOEs. Between 1991 and 1995, the years covered by the study, 159 SOE were divested (see table 1).

Even though not all SOEs planned for divestiture were in fact privatized, it is important to note that the privatization programme is a continuous process intended to span more than a decade depending on identification of the right buyers. About 53 per cent of the SOEs were successfully wholly or partially divested. The following are some examples of companies that were modernized and are in full production: (i) Tropical Glass (formerly Aboso Factory); (ii) West Africa Mills Company Limited, Takoradi; (iii) Tema Steel Company; (iv) Golden Tulip

Hotel (formerly Continental Hotel); (v) Ghana Agro-Food Company Limited (formerly part of Tema Food Complex Corporation); (vi) Ghana Textile Printing; (vii) Willowbrook Ghana Limited; etc.

Table 1. Divestiture of state-owned enterprises 1991-95

	Up to 1991	1992	1993	1994	1995	Total
Sale of assets	16	4	3	30	19	72
Sale of shares	11	5	2	2	6	26
Joint venture	6	3	1	4	0	14
Lease	3	1	0	1	0	5
Liquidation	24	2	5	5	6	42
Total	60	15	11	42	31	159

One of the techniques adopted by the Government was to list as many companies as possible on the Ghana Stock Exchange. However, because of poor performance and poor profitability, many of the SOEs did not meet the listing requirements of the Stock Exchange. Hence the very important technique of public listing as an option for privatization was restricted to just a few companies, mostly those with some original private sector participation. The plain truth is that most of the SOEs would have required considerable restructuring and the injection of substantial capital before remotely meeting the listing requirements of the Stock Exchange.

Another important event which occurred in 1994 was Government divesting 25 per cent of its shares in the nation's most profitable mining company, the Ashanti Goldfields; this was oversubscribed and allocation of shares was done on a pro-rata basis. The Government also sold all its shares in seven joint venture companies listed on the Ghana Stock Exchange. These included Lever Brothers, Enterprise Insurance Company, Pioneer Tobacco Company, Guiness (Gh) Ltd., Nestlè Ghana Limited, etc.

In order to avert or reduce the rate of default by investors to honour payment obligations, the DIC revised its procedures in early 1994 and introduced bid bonds to ensure that divestitures be consummated as one-stop transactions.

Since late 1993, the DIC has come under intense criticism from a suspecting and sceptical general public which accused the Committee of (i) lack of transparency in its operations; (ii) non-involvement of private sector operators in its membership; (iii) perceived inefficiencies in the operations of the secretariat; (iv) allowing Social Security and National Insurance Trust (SSNIT) (a government organization) to become "omnivorous" thus crowding out the local private sector; and (v) increasing the rate of unemployment through its divestiture activities.

The DIC accepted some of these criticisms and took steps to solve them. To achieve an improved degree of transparency and accountability it started publication of vital pieces of information such as: (i) the DIC's procedures; (ii) list of all SOEs listed and purchased; (iii) names and addresses of purchasers; (iv) for what amount (value); (v) what was paid up front; and (vi) the balance outstanding. In addition to the above publications, the DIC refocused the divestiture process making it an integral part of the accelerated privatization policy highlighted in the 1993 and 1994 budget statements.

Government also engaged the services of private accounting, law and banking firms and security houses outsourcing contractual arrangements to carry out the actual privatization activities. This made it possible for DIC to concentrate on the supervision, control, monitoring and evaluation of the overall divestiture process. Additionally further transparency and democratization of share ownership were achieved countrywide through the adoption of voucher schemes based on international best practice like that of Czechoslovakia.

An important strategic move by the Government to accelerate the divestiture process was the incorporation of SOEs in which the State had interests in accordance with the Company Act. This enabled the SOEs to be turned into public limited companies and paved the way for pre-divestiture preparation for listing on the Ghana Stock Exchange. This exercise also made it possible for hitherto tax exempt SOEs to pay taxes. Examples in this category include COCOBOD, Electricity Corporation of Ghana (ECG), State Housing Corporation (SHC), and Omnibus Service Authority (OSA). To ensure smooth performance under private company law, steps were also taken to establish a corresponding system of corporate governance.

In 1993, the list of SOEs to be divested was extended to include state financial institutions. State banks such as the Social Security Bank (SSB), National Investment Bank (NIB) and Ghana Commercial Bank (GCB) were outsourced to private firms to prepare them for divestiture. The divestiture of these financial institutions was part of the Financial Sector Adjustment Programme supported by the World Bank and the International Monetary Fund.

The above renewed strategies resulted in meeting the main objectives set for the divestiture process and improved the general satisfaction of the public. However, it must be pointed out that despite the revamped strategy the pace of actual privatizations still proceeded more slowly than expected, reflecting myriad remaining problems confronting the process.

In the United Republic of Tanzania the PSRC, operated since 1993, and a number of parastatal enterprises were included in the reform programme. The time frame for the programme was five years commencing in 1993 and it was anticipated that most of the work would be completed within that period. However, the work of the Commission needs to be extended as work still remains, particularly with the parastatals in the utility sector, power, telecommunication and water. This can be attributed to slow decisions by Government on either policy issues or approval or divestiture of particular enterprises. Regardless of this slow pace, the Government remains keen on a change in ownership of assets from the public sector to the private sector, and also for improvements to the production efficiency of retained SOEs that can bring more government revenues through taxes and dividends.

PSRC has faced a number of constraints in implementing the policy to reform parastatal enterprises; some are related to institutional and financial set-up aspects while others are socio-political in nature. Some policy-makers and the general public have questioned the rationale for Government to carry out wholesale privatization of state assets. The main criticism of the privatization programme has arisen from two factors, namely: (a) an entrenched notion of public ownership of assets in the United Republic of Tanzania existing for well over 30 years; and (b) an inadequately informed public on the process of privatization of parastatal enterprises.

The Tanzanian experience with privatization has been very limited. For a long period, the country has known only public ownership of enterprises through parastatals owned by the Treasury. The private sector concept was new to most people, particularly to employees of the firms being privatized. To them the solution to solve shortage of capital in an organization was to ask Government, the shareholder, to inject money to bail out the enterprise. Many people, including politicians and senior policy-makers, resented the sale of national assets to the private sector that had a connotation of foreign domination. For a country that for more than a quarter of a century had known and practised a centrally planned economy with public ownership of "the commanding heights of the economy", the move to implement privatization was seen as a contradiction to this once-cherished economic concept.

Moreover, Government did not do enough work to involve the public through public debate to discuss and air views on the destiny of parastatal enterprises in view of their poor performance. There was no public discussion or education of people regarding the reasons and rationale for the new policy. A careful review and adequate publicity for the new policy would have been necessary to allow people to understand and support its implementation. The general public is unaware of the management practices of business enterprises or the obligation of investors. Many people had thought the public enterprises were there for serving the nation, but were not informed as to how much was required to keep them operating at the expense of the taxpayer. Many of the problems which the PSRC encountered in implementing the privatization programme stemmed from the above factors. Other common problems faced by PSRC since initiation of the process of change in economic management could be summarized as follows: bureaucratic arrangements; political non-transparency; government inertia; buyers' inertia; lack of schemes or funds for acquisition of shares; fear of private and foreign investment in ownership of national assets; and lack of appropriate legal procedures and an administrative system.

In Uganda, a total of 68 SOEs were divested. This is just over 80 per cent of the SOEs earmarked for privatization by December 1997. Table 2 shows the trend of privatization to date.

Table 2

Year	Number of PEs divested
1993	6
1994	9
1995	19
1996	13
1997	21

The privatization programme is behind schedule. Its pace declined substantially in 1996 and some of the reasons are:

(a) Speculative bidders: The bidding process was saturated with speculative bidders who presented very high bids but ultimately had no capacity to meet their undertakings in the tenders. The result caused undue delays in awarding tenders to legitimate bidders. There has been a proposed amendment to the PERD Statute to put in place a bid bond.

(b) Lack of public education on the benefits of privatization: initially the privatization programme met with resistance from the public. This was solved by a public relations/education programme launched in 1995. This was in recognition of the public's demand for more information on the divestiture and reform of public enterprises and concern for a more transparent execution of the privatization programme. The Ministry of Finance hired a reputable international public relations firm, Burson Merstaller, which in conjunction with local counterparts conducted public awareness campaigns.

(c) Economic value of the assets: Whereas Government used both "replacement cost" and "going concern" concepts to value the assets of its enterprises, the private sector (local and foreign) used only the "going concern" approach. This meant that whatever the Government might have spent in civil works, infrastructural developments, etc., were considered "sunk costs". As a result, divestiture revenues achieved less than the asset value of the enterprises.

(d) Asset stripping: Occasional delays in concluding the divestiture of some public enterprises led to asset stripping and siphoning of cash by employees uncertain of their future employment. Proposals to solve this problem were made and included representation of unions on boards of directors, appointment of a "charge agent" and replacement of senior managers.

(e) Lack of a common formula for computation of terminal benefits: Each SOE had its own terms and conditions of service on which terminal benefits and retrenchment packages were based. Employees of different public enterprises were awarded different packages ranging from generous to unacceptable.

(f) Capital market: The slow evolution of a viable capital market made local mobilization of investment funds extremely difficult thus slowing down the process of privatization.

(g) Low worker morale: Privatization often resulted in low morale of workers and management caused by uncertainty of future employment.

(h) Bickering amongst state organs: The privatization programme was also plagued by bickering among various government officials and organizations. Post-election personnel appointments failed to satisfactorily address the critical issue of allocating authority and responsibility between the privatization unit (PU) and the line ministries. Successful privatization is extremely difficult without the PU's influence over line ministries to which parastatals belong.

From the foregoing facts, some of the determinants of effectiveness of the privatization process are: profitability (actual or potential) of the SOEs earmarked for privatization; an enabling environment for private sector development characterized by effective capital markets, supportive investment laws, etc; a well-informed public; effective managerial practices by the privatization institution; and the appropriate structuring and intentions of the privatization institution within the public administration system.

3. Impact of a privatization programme on enterprise management

One of the major causes for the failure of SOEs is poor management. Apart from regulations and laws applying to all business enterprises, SOEs are subject to additional managerial constraints that distinguish them from private enterprises. The additional managerial constraints facing SOEs stem from the wider public administration system in which they are embedded and the obligation imposed on them to meet social goals and other expectations of the general public or government.

These management and institutional constraints have rendered ineffective the huge investments made within SOEs. The inadequacy of management has been complicated by factors such as lack of marketing capability, lack of ability to run and maintain plants effectively, lack of financial control and other management weaknesses. The inadequacy of working capital, government interference and bureaucratic requirements were identified as major limitations, and made it extremely difficult for even the best managements to achieve positive results.

But there are also certain essential conditions which must be met for the full benefit of privatized enterprises to be realized: improved management is one element. Within this, the first component is an effort on the part of management to improve effective and efficient use of all resources: material, human, capital, etc; all these are "internal" factors. Secondly, there are structural and "external" factors and macroeconomic impacts that can prevent realization of the benefits of such "internal" efforts by management. In the prospective privatization itself, without improvements to the macroeconomic policy environment, the internal management system and managerial competence and attitudes and motivations cannot lead to improvement in the efficiency of privatized companies. In some cases, inattention to this can even lead to worse business and social results.

Some of the standard conditions for efficient privatization are that proceeds be maximized, right buyers be selected; employment be safeguarded and social cost minimized at least in the medium to long term; and that management practices introduced be conducive to improved performance. With respect to issues of employment protection and avoidance of social problems, it is nearly impossible to avoid them in the short term. Some reasons are illustrated in the following examples.

State-owned enterprises have always been concerned with social welfare issues by providing employment and were often satisfied with a modest, break-even, position. An almost invariable characteristic of state-run organizations was that they recruited and retained an excessive number of staff relative to their workload. Someone else, in the end the taxpayer, would bear the burden, and the companies had little incentive to take the hard decisions to reduce staffing levels to match real workload. In the end, as the case of Ghana illustrated, the State, through the DIC, had to make the difficult decision. The usual procedure was to make all employees redundant, paying them end-of-service benefits and severance pay. The new owner could thus start with a clean slate and employees retained offered new contracts of employment. Divestiture is therefore, inevitably, a traumatic experience for employees when their employment is terminated and only a chosen smaller number is offered jobs by the new employer on new contractual terms.

The next example also illustrates how a divestiture programme can create social problems. In a number of cases, an SOE is the major employer in a town or village; the wholesale redundancy of employees can be disastrous for the social well-being of the entire local community. African Timber and Plywood (AT&P) in Ghana was an example: 5,000 people were dependent on the 1,250 employees of AT&P. This company had a loan facility for upgrading its facilities but much of the loan was mismanaged; the company also lost its assets (uninsured) as a result of fire. It required further substantial investments before AT&P could become viable. In the circumstances, the company had to lay off most of its labour force creating unemployment in the community that had looked to it for sustenance. Hence, when companies in rural areas represent the sole source of employment for an entire community, the handling of potentially serious social problems requires both professionalism and compassion. Divestiture, therefore, must have a human face.

An even more traumatic experience is created when, owing to management failures, productive jobs cannot be created in the medium term in privatized companies. Avoidance of such situations depends on management improvements to enhance "internal" organizational efficiency and put in place strategies to deal with external environmental factors which impact the company. The importance of an improved management system, managerial competence, favourable attitudes and motivations for divested SOEs cannot be over-emphasized.

A successfully divested company in Ghana which is in full production, namely, the Tema Steel Company (TSC) reveals critical changes in management style. TSC was the first SOE to be divested in 1991 with 60 per cent of shares going to Amexfield while the Government of Ghana retained 40 per cent. The impact of its privatization coupled with financial restructuring, and rehabilitation of equipment and managerial practices is illustrated in table 3.

Table 3. Selected variables for the Tema Steel Company

Variable	Before privatization	After privatization	Percentage change
Share ownership structure	100 per cent GOG	60 per cent private 40 per cent GOG	
Capacity utilization	5 per cent	85 per cent	80 per cent
Production level			
Rolled products	9 000 tons	20 000 tons	122 per cent
Steel billets	11 000 tons	26 000 tons	136 per cent
Profits	Loss/subsidy	¢350m	400 per cent
Employment	130	500	285 per cent
Human resource development/training	Almost absent or sporadic	Fairly regular	

The use of casual labour during peak production periods reduced the huge wage bill. With increased output and improved financial performance, employment increased from 130 (pre-privatization period) to 500 (post-privatization). This improved performance was accompanied by the introduction of new technology since the company was divested. A sizeable number of spare parts and equipment imported during pre-privatization are now made locally. There are currently 16 expatriate managers with performance contracts in the top management of the company. The following are the major elements of their current management practice and style:

- clearly stated operational objectives and means of measuring performance;
- computerized financial accounts;
- autonomy of management in decision-making;
- harmony and dialogue between workers and management;
- receptiveness to necessary changes for improved performance;
- harmony and coordination between horizontal levels of management, namely, transport, marketing, production and finance functions, all supported by an effective flow of information;
- regular management improvement training programmes for both top and middle management officers;
- jobs clearly defined and delineated at all stages of production, from procurement through to marketing and service/product delivery;

— effective resource and time utilization; and
— regular meetings between management and workers.

In reviewing the impact of the privatization programme on enterprise management in the United Republic of Tanzania, the following strengthened management practices were introduced in the privatized companies leading to improved enterprise performance:

— organization structure and staffing;
— decision-making;
— valuing of human resources;
— improved industrial relations;
— measurement of performance and incentives;
— management development and training;
— information technology and management information systems implementation;
— institutional reconciliation and management of change;
— employees' commitment.

Organization structure and staffing: For the companies that were privatized, the first step was to study existing structures and their roles vis-à-vis the company's core business and productivity. Structures were reorganized and streamlined to ensure cohesion and better coordination among various departments. In some cases departments were reduced to sections under one main department. The streamlining of departments was common to all companies studied including the Tanga Cement Company Limited (TACC) which is still carrying out this process. It is a continuous one to ensure that structures contribute to achieving the desired and changing goals. In the case of Tanzania Cigarette Company Limited (TCC), in the finance department, the situation was such that there were far too many accounting staff in the lower levels while at the top there was only one person expected to undertake all regular accounting work. This proved to be impossible in view of the fact that under new management, the flow of data and information on operations was required regularly and promptly for submission to overseas partners within the first week of every month. As a result, functions were streamlined creating more responsible and accountable managers while retaining a small staff below them. This made generation of data more efficient and also made it easier to identify sources of information and data for management information system (MIS) reporting. The new structure created positions manned by competent staff and made information flow more efficient, improving competitiveness in the market and improving staff remuneration and productivity. Structures are continuously reviewed to better define reporting links at different levels, rationalize allocation of work and improve role clarity.

Staffing had undoubtedly been high in all areas of production, and had very little relationship to the productivity prevailing in the enterprises. In this area privatized companies streamlined staffing levels. The companies decided to increase the depth of staff skills to facilitate management succession through recruitment of high calibre young Tanzanian graduates. Parallel to recruitment of qualified staff management of these enterprises has also been developing the potential of new and old (pre-privatization) employees. Recognizing the political sensitivity of the problem of staff reduction, the companies have undertaken the process in two main stages, namely, voluntary and forced staff reductions. The application of the two approaches enabled the staff to feel that the company was concerned by their plight and recognized their earlier contribution to the company; a golden handshake was offered to those who volunteered to retire. In most cases the offer was more than what the law and the labour union required. The companies worked very closely with the labour union both at plant and national levels to also ensure that the law was adhered to. Forced retrenchment was also exercised because of low production activities; in some cases jobs were identified as not requiring permanent employment, but casual employment. Some privatized companies inherited low production systems and restructuring and large amounts of capital were required to increase production levels to accommodate higher employment levels; but this could not be accommodated during the initial period of the process. The system of staff reduction was accepted by workers and work unrest in the companies was generally avoided.

Decision-making: The decision-making process in parastatal enterprises was bogged down by bureaucracy and indecision which prevailed at many levels, even that of the chief executive. Powers given at different levels were limited, though accountability was required. The requirement for accountability was not commensurate to the authority and responsibility provided. There is noticeably improved decision-making under privatized enterprises where at every decision-making point powers to make decisions have been conferred. The chief executive officer (CEO) and heads of departments have been given wide powers and mandates to carry out their duties thus speeding up decision-making. For example, the Tanzania Breweries Limited (TBL), privatized in 1993, installed effective decision-making at all levels. The executive board, under the executive managing director, now meets regularly to make decisions and review company operations. The executive board also has been given a mandate by the board of directors to make decisions on its behalf since it meets only four times a year primarily to make major policy decisions. The delegation of power and authority extends down to the branches. Their operations are all guided by laid-down procedures and regulations adhered to by everyone. In view of this, decisions have to be made and someone is accountable for the decisions made. As a result, efficiency has been improved and there is no backlog of unaccomplished tasks because of indecision. This is a much healthier management style, particularly since decisions are with the managers of operations.

Valuing human resources: The privatized enterprises have demonstrated care and concern for the people in their operations. This has been one area where investors have moved rapidly to arrest the declining situation vis-à-vis human resources development in commercial operations. Staff has to be motivated to be productive. Training was given utmost priority as a way to make staff understand the new rules and culture for operating the plants. Training was tailor-made to suit operations and included short-term courses in plant training seminars, etc. Care for human resources was extended to other economic and social considerations such as provision of good food from the canteen, better medical services and more attractive remuneration.

Industrial relations: Industrial relations proved more cordial under privatization than was thought at the time of negotiation with investors. The new investors accepted trade unions as having an important role, and hence have not been disturbed. The management of enterprises negotiates directly with the enterprises' branches of the trade union rather than negotiating with the national trade union. This has made it possible for every plant to negotiate its own remuneration package depending on its productivity. Uniform remuneration packages supervised by the Standing Committee on Parastatal Organizations (SCOPO) no longer function. This has improved the working relationship in privatized institutions because workers take part in negotiating salary reviews on an annual basis based on their performance. This has increased staff dedication to work as staff realizes and sees the results of its own efforts through better pay and services.

Measurement of performance and incentives: Measurement of performance at enterprise level rather than only at an individual level is practised by many of the privatized companies, and is used for determining increases in remuneration. TBL for example sets a target for the company annually and, if it is achieved, bonuses are paid. On the other hand, the Tanzania Cigarette Company Limited (TCC) focuses on individual contributions to corporate goals. On this basis, TBL and TCC are developing performance-based pay, bonus and incentive schemes. All these actions are aimed at instilling a sense of responsibility and enhancing the commitment of staff to work. With these practices, enterprises are now getting production back on track and enabling them to embark on other innovative management practices. Privatized companies avoid the habit practised earlier during the public sector-led era when salary increases were automatic rather than being a function of performance by the individual and/or the company. A market-related salary system is also being introduced as a way of retaining staff.

Both TCC and TBL are improving the performance appraisal and objective setting process. While this was supposed to be undertaken in the companies before privatization, there was no serious implementation. These processes are now being taken seriously to instil productivity consciousness and accountability among staff. Disciplinary procedures are being implemented fairly and consistently and, most importantly, by involving the labour union.

Management development/training: Management development/training in privatized companies is being given great consideration and management development programmes are being implemented successfully. The main area of concern has been to make staff in privatized organizations understand the objectives of the company and their internal systems covering accounts, commercial, human resource and technical areas. Companies like Reynolds International and Indol for the TCC and TBL respectively have established systems making reporting and monitoring easier. The first step in management development by new investors was to introduce staff to their own existing systems.

Information technology and management information systems: Information and the methods for its generation prior to privatization were not time based and were not seen as a priority for bringing about efficiency in companies' operations. Computers were used for word processing and perhaps for maintaining a debtors' or creditors' list. Privatization of the companies led to serious use of information technology systems in operations. This in turn demands prompt submission of quality information. For example, TCC receives all information from its branches scattered all over the United Republic of Tanzania within two days and it is processed for submission to management who in turn transmits it to the head office in Zurich, Switzerland. The entire picture of the operations of TCC is known by directors by the first week of every month. If there are any operational problems, decisions can be taken immediately and problems resolved forthwith. This is also the case with TBL and with companies acquired by multinationals.

Institutional reconciliation and management of change: In the Tanzanian privatized enterprises, there has been institutional reconciliation amongst staff employed prior to privatization with newly recruited staff, resulting in more harmony in the organization. At the initial stage, the staff in managerial positions prior to privatization were not fully integrated into the new "team"; however, this has changed. The new management has created a friendly environment in which staff cooperates. There are also two other categories of staff in the privatized companies, namely local and expatriate staff. Again, as a result of an improved work environment, the two groups cooperate very well. The increased interaction among staff has reduced conflicts. Institutional reconciliation is essential for creating a conducive work environment and for promoting productivity and effective industrial relations. The privatized companies have embarked on a process of cultural change at all levels and are striving to upgrade standards in the areas affecting operations and staff welfare. A process of cultural change within the privatized companies is prompted and activated by the development of increased competitiveness and the introduction of international performance standards. The management of TCC and TBL have made significant efforts to promote effective companywide communication to keep employees up to date and let them know what is happening in their work lives and social environment. The companies have taken initiative to introduce and train staff on various aspects related to change. TCC has introduced its staff to various subjects related to change, such as customer service, change management and exposure to the way companies operate in a free market economy, with emphasis on how the United Republic of Tanzania has evolved in this direction.

Employee commitment: The measures taken by the two Tanzanian privatized companies (TCC and TBL) in managing their operations, particularly in areas affecting staff, has won staff commitment. Although at the time of negotiating for privatization staff in these companies were against it, their attitude toward the process has changed and there is now much support. The support is attributed to positive measures taken to restore the confidence of staff, demonstrating to them that the new owners care and assuring them of good remuneration and other benefits. This commitment by staff has led to higher accountability and improved performance. Staff saw the privatized operations as a reliable source for their livelihood and strived to increase productivity to be rewarded accordingly. Staff now know they have to commit themselves to hard work to raise productivity so they can benefit more. They have accepted a concept that they have to work well for the company to get better benefits. Strong commitment demonstrated by the staff also shows a sense of belonging to the organization.

The impact of the above new management practices as a result of privatization has had far reaching positive social and economic results on enterprises. There have been reported improvements in both production quality and quantity. For example, TBL performance indicators show production has increased from 4.5 million cases in 1993 to 9.8 million cases in 1996 after privatization and for 1997 it is reaching 11 million cases. The market share of TBL in the beer industry has grown from 31 per cent in 1993 to 75 per cent in 1996 and it is projected to increase to 80 per cent in 1997. The value of sales increased from US$19.5 million in 1995 to US$23 million in 1996 and the forecast for 1997 is US$28.8 million. As regards return on investment, dividends totalling US$8.8 million were declared in 1995 for the first time and in 1996 these were US$14.5 million. In addition to dividends which the Government as a shareholder received, other receipts came in from sales tax. Sales tax increased from TZS12 billion in 1993, prior to privatization to TZS24 billion in 1995 and TZS34 billion in 1996. In 1997 it is projected to pay to Government about TZS40 billion.

On the social front, staff remunerations have improved as compared to prior to privatization. In TBL, the minimum wage for staff increased from TZS19,000 in 1994 to TZS105,000 in 1997. The increase in salaries at TBL is a result of increased performance as reflected in production and sales turnover figures.

On the basis of the above case-studies, one can assert with certainty that positive managerial practices evolved or were resorted to as a result of privatization. These included employee commitment, participatory decision-making, maximizing economic and social goals of enterprises, improved harmony between workers and management (effective industrial relations), improved flow of information and more effective resource utilization. Others included clearly stated operational objectives, computerized financial accounts, strategic planning and regular management training programmes for all levels of management.

One main lesson that clearly stands out from all these successfully privatized enterprises is the impact of the emergence of appropriate and more effective management systems and practices on the companies' improved performance. If privatization is to achieve its goals (page 8), one criterion to be used by the government's privatization institution is to select new investors with *a track record of good management performance*.

4. Impact of privatized and restructured enterprises on management development institutions

The performance of privatized enterprises in the three countries reviewed indicates that effective management can be singled out as one of the major reasons for improved performance. Previous studies of the same enterprises, prior to their privatization, concluded that poor management was indeed the basis of their abysmal and unacceptable performance.

On the basis of the case-studies of the privatized enterprises in Ghana and the United Republic of Tanzania, a number of management areas of critical concern to enterprise success were identified. These included strategic planning and management, human resource management and development, organizational structures and staffing, productivity improvement, domestic and export marketing, information technology and data management, financial management, budgetary control, procurement methods, supervisory management, employee performance and evaluation, incentives, employees commitment, industrial and labour relations, interpersonal skills, time management, management of change, team building and production methods.

Since the above factors contribute to the success of all privatized enterprises, the challenge facing new, unprivatized and other enterprises is how to internalize and develop these factors to create a more effective managerial culture. Analysis of the privatized enterprises' case-studies indicates that training and development within enterprises was accorded the highest priority, and in-house management training programmes aimed at addressing enterprise-specific training needs were continuously carried out. In the United Republic of Tanzania, TBL established a training department headed by a senior manager. The training department of TBL focused on staff with responsibility for others (i.e., supervisors) and emphasized training methods, including coaching, etc. The policy adopted regarding management development in TBL was to improve skills of staff in activities related to the functions of the company. The training department, in collaboration with other line departments, organized various short courses as part of departmental on-the-job training. TBL discouraged long courses that take staff away from work for longer periods. In view of this, TBL's policy was to try to employ already qualified staff who needed only to be introduced to the company's working methods. Recent TBL practices on management development has been to give tailor-made courses in areas relevant and of immediate use to the enterprise, e.g., exposing accounting staff to accounts systems used by sister companies, or production staff being given in-plant training on specific areas of production, maintenance of machinery, etc. The extensive short-duration training covered all levels of staff from managerial to support staff.

But how have management development institutions (MDIs) responded to these needs and changes? In Ghana, interviews with the following relevant institutions — Association of Ghana Industries, Ghana Standards Board, Ghana School of Law, Ghana Institute of Management and Public Administration, Management Development and Productivity Institute, and State Enterprises Commission — reveal that privatization policies and processes have had regrettably little or no significant effect on the programmes of MDIs. The same could be said of the MDIs in Uganda and the United Republic of Tanzania. In the case of Ghana, only one MDI had plans to develop tailor-made programmes for privatized enterprises in collaboration with foreign MDIs with such capacity. Examination of current programmes (curricula) of MDIs indicate that the programmes offered are of little or no relevance to privatized enterprises. Obviously there is a gap which needs to be filled either by the privatized enterprises themselves (e.g., TBL of the United Republic of Tanzania) *and/or by reforming existing MDIs to become more market-driven.* The assumption here is that MDIs would be willing to take on privatized enterprises as one of their clients.

Like SOEs, *MDIs are also in need of restructuring to become more proactive and competitive* by offering customized programmes in a market-oriented economy. Analysis of the performance of MDIs in the three countries reveal that their inability to respond to the management development needs and challenges of privatized enterprises have been due, in part, to the following constraints:

— obsolete legal instruments which bear no relationships to current ways of conducting business. As most MDIs were established during public sector-led eras, their structures, internal systems and procedures, recruitment procedures and conditions of service are similar to those of national civil services;
— as public sector institutions, MDIs depend largely on government subsidies and have been adversely affected by declining government funds available to its institutions;
— programmes offered by MDIs are primarily aimed at the public service including the civil service and SOEs; however civil service reforms, privatization of SOEs, the growing private sector and NGOs denote the emergence of "new clients" with "new needs". As illustrated by the case-studies of the three countries above "current programmes" of MDIs are of insufficient relevance to privatized enterprises;
— the growing number of private management consulting companies offering training and advisory services to public and private sector organizations is indicative of a highly competitive market in which MDIs operate.

In essence one has a situation in which public institutions (not privatized MDIs) attempt to serve a more dynamic private sector.

5. Conclusion

The main lesson(s) that emerge from the case-studies of privatized enterprises indicate the importance of continuous management development and training for all levels of staff. Secondly, for management development and training to be effective, it must be enterprise-specific, demand-driven and job-related. Thirdly, enterprises need to accord great importance and priority to management development and training, i.e., strong resource allocation to and management of, the human resources development and training function. This is a prime responsibility of all supervisors, but should be coordinated at a senior management level. Since one of the reasons cited for the slow pace of privatization and of enterprise development in Africa is lack of adequate managerial capacity, MDIs and other relevant institutions *need to evolve new dimensions to their ways of executing their programmes* through training, consultancy and research. It should be stressed however that management development/training is just one of several factors affecting privatization, the emergence of new enterprises, and their subsequent performance. Any agenda for action should also address macroeconomic, political, social and technical questions associated with privatization policy and an enabling environment for enterprise development. With respect to managerial skills development, the case-studies illustrate the need for continuous capacity-building for management development not only within enterprises but also within divestiture institutions and within management development institutions. More and better could be achieved if MDIs were to become more proactive and market-driven in providing customized services to their clients. MDIs would need to form a strategic partnership and increase dialogue with enterprises and privatization institutions if they are to become more relevant and sustainable in a changing world.

Any agenda for action should also address the capacity-building needs of MDIs in order to be more proactive and be able to offer such customized demand-driven programmes. The elements of this section of the agenda, based on the case-studies, can include the following:

— changing the legal framework of MDIs, the composition of their boards of trustees/governors, their governance and structuring, etc., in order to be more sensitive and responsive to private sector needs;

— restructuring or institutional strengthening of MDIs must be based on consensus reached by all stakeholders on measures needed to diminish the level of resistance to change; and the planning process must be participatory in order to generate a sense of ownership and the commitment necessary to implement it;

— in a dynamic and competitive environment, the internal capacity of MDIs is crucial for achieving and sustaining acceptable levels of performance; strategic planning; financial management; management control; marketing; management of training; consulting; research and support services are all essential for maintaining a competitive edge;

— improve skills to develop and deliver training programmes and consulting services in various disciplines; personal and professional competence; training needs analysis; case-study writing; programme design and evaluation; group facilitation methods; business management training and consulting; project analysis and management, etc., are all areas in which skills development are most urgently needed;

— strategic partnerships, networks, alliances, etc., are also needed by MDIs to complement their internal capacities since it is impossible for any single MDI to possess all the capacities required to design and deliver all programmes to a diverse range of clients;

— capacity-building of MDIs is inextricably linked with availability of funds. As MDIs depend largely on government subventions shrinking national budgets mean there are reduced funds for these institutions. In recent times, some MDIs have generated incomes through their own efforts; the shift towards a market economy and the impact of privatization call for an increasing emphasis on "internally generated income" through user charges for programmes which are much more effective and for which there is much more user demand.