

CORPORATE STRATEGIES FOR COMMERCIALIZED
PUBLIC ENTERPRISES: ROLE OF BOARDS

Thank you for the opportunity to discuss with the top leadership of Nigerian public enterprises about the enormous management challenge involved in the commercialization process and to focus on the most critical task to be faced -- the very demanding task of developing and executing strategic plans effectively.

Once again, CMD is to be commended for assembling the right audience to deliberate on timely economic issues critical to the nation's future and to explore their implications in terms of management practices and practical, real world solutions.

My assigned topic deals with the Board's role in strategic management of those public enterprises which are going commercial, either as an end objective or as a transition step towards privatization. I will refer to them as Commercialized Public Enterprises, or CPE's for short, throughout this paper.

We should first, however, ask ourselves why this topic is important particularly to this audience. There are three main reasons -

First, commercialization is increasingly critical to the overall success of the Structural Adjustment Programme. Closing the deficit spending gap is critical to conclude external financial arrangements and it is increasingly evident that downward pressures on oil prices may last well into the 1990's. What may be less well understood is the permanence of the economic forces driving Nigeria to fundamentally

restructure its economy and the consequent inevitability that commercialization must be managed through to its logical conclusion. The result is a heightened urgency to get the commercialization/privatization process solidly underway.

Second, commercialization is a difficult and exhausting task to accomplish. I sense there may be a tendency to view commercialization as something that can be easily accomplished with a few minor changes in organization structure, tariffs, operating policies, and systems and procedures. The reality is that commercialization is an enormous and permanent change which can only be accomplished by a complete turnaround in management attitudes and practices and which requires extensive and pervasive change over a long period of time and throughout the length and breadth of any public enterprise which seeks to commercialize successfully. It is an enormously complex and difficult process to manage effectively and to accomplish the desired end results.

There is considerable practical experience which supports this view. I would particularly commend to your study the experience of the Thatcher government in the UK and, here at home, the pioneering efforts which are being undertaken by NNPC. My firm has been privileged to work closely with NNPC for the past two years. I have been most impressed with the way NNPC has faced up to both Nigerian structural adjustment requirements as well as global forces which are totally restructuring the petroleum industry today. NNPC has shaped effective strategies and supporting programmes to respond to these forces at work and has developed sound comprehensive programmes to go commercial. The Ministry of Petroleum Resources and NNPC management are without question the leaders in commercialization within Nigeria today. Their experience, as well as that of the Thatcher government, demonstrates that successful commercialization requires the management of change on an unusually large scale. Commercialization is a once in a lifetime occurrence which requires unique teamwork between the Board and management to accomplish successfully. Furthermore, it requires a high degree of professionalism at both levels as well as strong and sustained commitment from government.

Third, the first step in commercialization is to get the strategic direction right and then develop all commercialization programmes to support and implement a consistent strategy throughout the organization. Successful management of large scale change and what amounts to discontinuity in the life of a public enterprise quite obviously requires clear definition of long term mission, major objectives and strategies, and supporting plans and monitoring systems. The commercialization process requires exceptional leadership from the top down through all management levels and finally reaching all employees throughout the entire organization. In management terms, we are therefore dealing with strategic planning and its use as the guiding force behind all changes in organization, systems, policies, procedures, management practices and corporate culture which must form part of an overall commercialization programme.

It must be evident by now that the assigned topic could be developed into a complete seminar. It must also be evident that any professional discussion of this topic must presuppose a high level of professionalism and a strong government commitment in order to successfully accomplish commercialization. In fact, our topic becomes somewhat academic unless we take as a given that Government has the intention and will to implement commercialization with minimum political interference and with the public interest being the end objective. In the interests of time, therefore, my task must focus only on relevant management concepts and practices which have been proven to be effective.

The topic, therefore, requires us to delve into three issues:

- (1) to look at commercialization in terms of management practices,
- (2) to explore the techniques of strategic planning as they relate to effective commercialization of public enterprises, and
- (3) to focus on the Board's role, giving particular emphasis to the interface with the other two principal players - Government in its role as owner on behalf of the public and management which must be the prime mover in any effective commercial public enterprise (CPE).

My paper will therefore be structured in four parts:

- (1) perspectives on commercialization,
- (2) organization of the CPE Board of Directors,
- (3) organization of the strategic planning process, and
- (4) discussion of the Board's role in strategic planning.

My central message will be that strategic planning is the most important management function which must be carried out in any successful CPE today in Nigeria and it therefore becomes the number one task for CPE Boards to address in effectively discharging their professional responsibilities on behalf of government and the public interest.

PERSPECTIVES ON COMMERCIALIZATION

One of the major problems in going commercial is to know how to start and where to focus management's efforts effectively in light of the magnitude and the high potential results and risks inherent in the task ahead.

Two perspectives are worth sharing. The first deals with prioritization and the second with the underlying justification of a CPE's very existence. Both perspectives illustrate the need for strategic planning and top management attention to the key decisions that can make the major difference called for in transforming sickly, bureaucratic institutions into healthy, viable commercial businesses.

Prioritization recalls the Peter Drucker distinction between effectiveness and efficiency. Drucker defines effectiveness as doing the right things and efficiency as doing things right. Management's priority must be to do first things first. First, effectiveness - and then focus later on efficiency.

Simple advice, but hard to do in practice. Particularly when day to day problems interfere with long term and more permanent solutions which only payoff in some distant tomorrow. My observation of Nigerian enterprises is that management's are typically involved far too much in firefighting - and hence the commercialization process is a particular challenge to develop far-sighted and tough-minded management. This challenge recalls the saying - When you are up to your neck in alligators, its hard to remember we came to drain the swamp!

So - where should management focus its time? From experience, it must be on the key decisions which can make a major difference. Typically, capital spending decisions come first. These require realistic return on investment justifications and must be based on a clear vision of the CPE's strategic direction. Equally important will be pricing decisions and this will require tariff justification based on realistic cost structures (based on replacement values and efficient operations) and return on investment targets which assure autonomous, long term viability. Also important will be the need to strengthen marketing and commercial capabilities so as to focus production and delivery of goods or services on what the market wants and is willing to pay for at a profit to the CPE. Next will be the need to assure funding availability (the right debt/equity structure) and to manage working capital (particularly to collect receivables effectively). Lastly, on this short and purely indicative list, is the need to properly manage human resources on a merit basis with emphasis on management development and training being reoriented to produce commercially oriented management and practical skills relevant to the commercial arena.

This priority list could be greatly lengthened but each addition would continue to emphasize the key point that commercialization must start with major strategic decisions - which focus first on effectiveness and then putting in place supporting programmes to deal with efficiency.

Lets deal with our second perspective - which is the justification for CPE's in the first place.

Global experience teaches that state corporations have many weaknesses and the clear global trend is to move economic activities to the private sector. Reasons frequently given for the weaknesses include the following:

- (a) CPE's become overcentralized and insensitive to market forces;
- (b) they attempt more than they can carry out and focus unduly on massive showpieces rather than practical projects;
- (c) they maximize production output or emphasize sophisticated technology rather than respond to relevant market needs;
- (d) public services tend to be a vehicle for social and political patronage, thereby misallocating economic resources;
- (e) public services tend to be under priced and hence overused thereby tending towards deterioration and failure to replace capital assets; and
- (f) CPE's lack flexibility and responsiveness to continuous structural change taking place in all world economies today.

But let me not bore this audience with a longer list. In your positions of leadership, you have heard the disadvantages at length and they indeed provide much of the rationale for the current policy of privatization and commercialization.

What I would like to do, however, is look at the other side of the coin; the advantages of CPE's and why they can have a justifiable role to play.

CPE's can have one clear advantage - if they are properly managed - in undertaking major capital projects which require significant risk taking and innovation and where it is clearly in Nigeria's interest to have an equity investment. Examples abound in the petroleum sector - from exploration and production to domestic utilization and export of natural gas to major basic startup industries such as petrochemicals. In such cases, the capital requirements exceed the capacity of the Nigerian private sector and there is also a strong developmental thrust involved. It is instructive to recognize that the basic justification for CPE's is so closely linked to major capital projects which in turn depend heavily on sound strategic plans for their underlying justification.

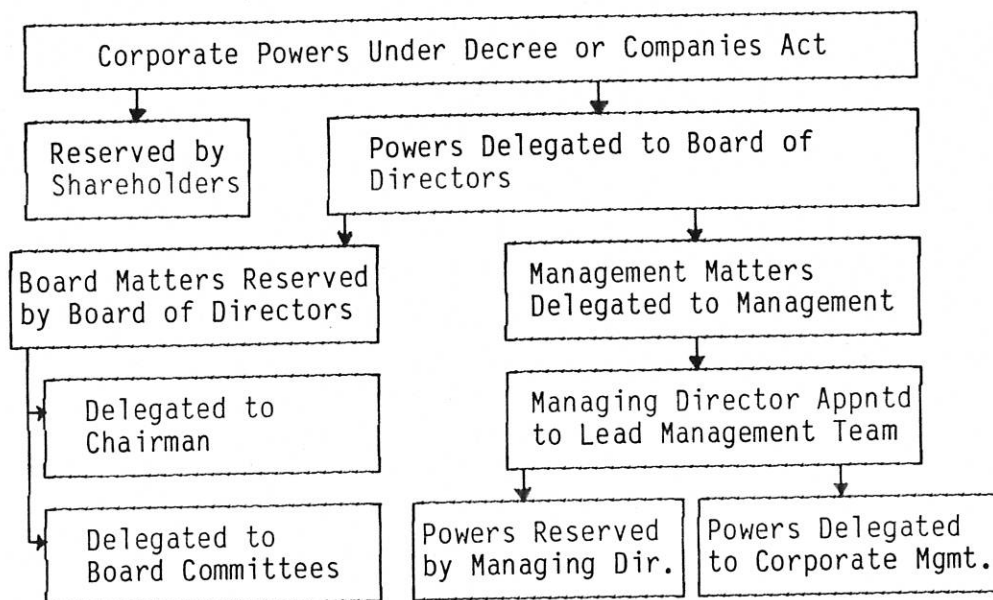
We can conclude that it is primarily major capital projects which clearly provide justifiable roles for the CPE. Very frequently this will be in joint venture with technical partners due to the one caveat noted above if they are properly managed. Based on Nigerian experience during the past decade or more, the critical management tasks have been to get the strategy right; to plan and execute such projects effectively; and to operate the resulting businesses efficiently.

CPE's can clearly produce an advantage in terms of more rapid development than would otherwise take place. Again, however, the key management ingredient is to get the strategy right and to execute effectively.

ROLE OF THE CPE BOARD

There is little debate today around the world that CPE's can only operate effectively if there is a clear and sufficient delegation to the Board which permits them to carry out a defined mission with minimal political interference and to be fully responsible and accountable for results in virtually the same way as is true of their private sector counterparts. It is likewise universally accepted that directors should be chosen for their professional capabilities, their willingness to put the nation's interest paramount and their personal integrity and probity. If we can accept these premises as correct, then we can address the matter of Board role and organization.

There are three players to consider - the Shareholders (Government), the CPE Board and the CPE Management. Due to the clearly separate role that each must play, we should first understand how powers should be distributed among them. It is useful to think of powers in a commercial enterprise as either being reserved or being fully delegated to the next lower level. The flow of delegation typically is as follows:



Once the process of reserved and delegated powers is understood, we can then see how the respective roles of the shareholders, the CPE Board, and the CPE management can be separately and specifically defined. This separation and definition of responsibilities and duties should be seen as the foundation stone for the entire organization structure of a CPE.

The shareholder should concern itself with very broad policy issues and an overview of performance compared to predetermined criteria. It must also concentrate on major strategic and financial decisions as well as appointment of Board members. For example, we could expect government to reserve the following powers to itself -

- . changes in decree or articles/memorandum of association,
- . appointment of Board members,
- . approval of audited accounts, annual reports to shareholders and proposed dividends,
- . major capital structure changes such as -
 - authorized debt/equity structure
 - additional equity, debt or guarantee requirements
 - mergers, acquisitions, or dissolution of the CPE or its subsidiaries and affiliates
 - significant pledging of assets, and
- . definition of mission and major elements of the CPE's strategic and capital spending plans.

Provided this short list is carefully designed and constructed, the shareholder should be able to delegate the remaining responsibility for the management of the CPE to the Board of Directors. While one recognizes that any supervising Ministry will want to keep close control over a major CPE, this control should be done through the Board of the CPE (which would typically include the Minister or Ministry representation among its members).

With this conceptual framework in mind, we can now turn to the responsibilities and organization of the CPE Board. Broadly speaking, the role of a Board is three fold -

- . to see to the compliance with the law,
- . to help the Chief Executive Officer (the CPE Managing Director) to carry out his responsibilities, and
- . to act as trustee for the shareholder (which in this case also implies representation on behalf of the public).

The organization of a Board typically breaks these three elements down into specific board functions which are frequently detailed in a Board Organization Manual. We would typically find at least nine different functions, as follows -

- (1) developing proposals for shareholder approval,
- (2) establishing the strategic direction of the CPE,
- (3) defining powers to be reserved to the Board,
- (4) defining powers to delegate to management,
- (5) selection of the Chief Executive Officer and approval of top management appointments,
- (6) advising and helping the Chief Executive Officer to carry out assigned responsibilities,
- (7) monitoring of the CPE's performance and taking indicated action,
- (8) organizing for effective conduct of Board business, and
- (9) perpetuating a healthy Board system.

You will note that the second function (just behind shareholder proposals) is that of establishing the strategic direction of the CPE. This function may be carried out by the entire Board or, as will be discussed later, through a Planning Committee.

Each of the Board functions should be reserved to the full Board or specifically delegated to the Chairman or a Board Committee. In addition to a Planning Committee, Boards would typically have at least an Executive Committee (to act between Board meetings), a Management Development Committee (to oversee the key task of training, development, compensation, and succession planning for future management), and an Audit Committee (to oversee the external and internal audit process as well as financial reporting for the CPE). Typically, Board Committees would have limited authority to act and would report or recommend matters back to the full Board for approval and/or decision.

The above implies a strong Board capable of supervising and directing the activities of management but confining itself to matters appropriate to the Board while delegating to the Chief Executive Officer and CPE management through formulation of broad policies, plans and directives.

An effective Board system will assure that policies, strategies, organization structure, systems, procedures, practices and management processes are properly established and working effectively. It will provide for review of management performance, particularly as to financial results, and for appropriate action on major differences from established plans or policies. Most importantly, once an effective Board system is in place, it will provide for the Board to get out of the way and let management do its job.

On this note, lets now turn to the crucial management task assigned to the Chief Executive Officer - the task of strategic planning.

ORGANIZING THE STRATEGIC PLANNING PROCESS

There are many approaches to strategic planning but the techniques are increasingly tending towards a process proven to be effective in practice. My remarks will focus on a seven step process used by our Firm on client projects. My purpose is to illustrate that strategic planning should be carried out through a systematic process which is under the direction of top management and which involves all levels of management responsible for implementing strategic and supporting plans. In other words, it not only establishes strategic direction for the CPE but also provides for its effective implementation through linkage to other planning and control systems typically found in a commercial enterprise. My secondary message is that if these supporting systems for planning and control are not in place, then the Board must logically start with strategic planning as the only way to be sure you are working effectively - that is, doing the right things first.

Let me be brief now about strategic planning because there is an earlier article attached as an appendix to this paper which deals with concepts, methodology and implementation of strategic planning in Nigeria. Today's thrust will be to discuss the strategic planning process in terms of how to organize and what are the respective roles of top management and the Board.

Strategic planning is the formal process of determining long range objectives and how to achieve them. It involves five separate tasks -

- (1) determining long term direction of the company,
- (2) assessing external environment and competitive position,
- (3) establishing overall objectives, goals and strategies,
- (4) determining resource requirements, and
- (5) establishing the foundation for tactical plans.

We use a seven step process, or methodology, as follows -

- (1) Organization (including current strategy audit)
- (2) Environmental Analysis and Forecast
- (3) Internal Analysis and Position Assessment
- (4) Mission, Objectives and Goals Development
- (5) Strategy Development (including linkage to budgets)
- (6) Plan Development (including financial projections)
- (7) Implementation (including monitoring of performance).

The key requirement for successful strategic planning is to train all levels of management who will be involved in strategic planning in the methodology and to supervise their preparation of strategic plans until such planning becomes a thought process; or way of thinking, exercised by management on a continuing basis.

Effective planning can only be carried out by operating management so they can be held responsible for future results. The Chief Executive Officer is therefore also the Chief Planning Officer and it is his primary task to be sure that -

- . senior management is committed to and involved in all critical steps of the process,
- . top down direction is accomplished by setting out planning guidelines, assumptions, and broad objectives which serve to structure the overall process,
- . bottom up planning takes place in order to get the best ideas and inputs from those directly involved with markets, production and other vital activities of the company, and
- . critical review and lively debates take place openly and candidly throughout the process so as to produce the best plan and to build management commitment to execute the plan successfully.

Planners therefore are the catalysts and co-ordinators to make sure the planning process is carried out successfully. Planners thus are facilitators whereas management is directly responsible for plan preparation and implementation as well as overall corporate and financial performance.

The Environmental Analysis and Forecast phase tries to anticipate future developments and position the company accordingly, rather than react after it is too late. Planners can play a useful role in this phase, particularly in preparing scenarios which depict various possible future developments and help reduce the degree of uncertainty in planning. But, here again, it is management which must decide the forecast and any resulting course of action.

Internal Analysis and Position Assessment involves a candid definition of strengths and weaknesses, determination of key success factors in the industry, and objective comparison to competition or industry standards. Planners can again do the analysis but the final assessment must be that of management.

The fourth and fifth phases define mission, objectives, goals and strategies - which form the core of the strategic plan. A brief definition of each term is in order -

- . Mission describes the business purpose or "grand design" for the future in non-financial terms, by setting out concisely the business philosophy and strategic direction.
- . Objectives spell out management's intentions towards pursuing and accomplishing its mission, by defining what is to be done.
- . Goals relate to specific objectives and quantify the expected results in terms of how much and by when.
- . Strategies also relate to specific objectives and goals and describe how objectives and goals will be accomplished. They in turn are supported by specific action plans which define steps, responsibilities, timetables and resource requirements. Action plans are then linked to budgets and management reports so as to provide for plan monitoring and control.

Plan Development and Implementation phases complete the seven step process. They include the key steps of presenting final plans in financial terms for approval and making sure approved plans are successfully executed.

My key message for today's audience is not to teach you to be strategic planners but to help you as Board Members to organize and monitor the planning process. The key conclusions are that effective strategic planning techniques exist and have been proven in practice; that top management has the primary responsibility for plan development, execution and monitoring; and that the Board can readily oversee and approve strategic plans, with minimum direct involvement except in key decisions, provided that the planning process is in place and functioning effectively.

CPE BOARD ROLE IN STRATEGIC PLANNING

Lets recap as we cover our fourth and final point about the Board's role in strategic planning. We have reached three main conclusions -

- (1) the Board is specifically responsible for establishing the strategic direction of the CPE,
- (2) the Chief Executive Officer is also the Chief Planning Officer for the CPE since the development, execution and monitoring of strategic plans are the primary responsibility of operating management, specifically those who are held responsible for results.
- (3) an organized planning process not only assists successful strategic management but also provides the basis for the CPE Board to exercise its oversight role and to approve soundly conceived strategic plans as well as supporting plans.

It is therefore obvious that the Board's role will directly depend on how well management plans and how well the process functions in practice.

If the process does not exist, the first order of Board business must be to take an active role in establishing the strategic direction of the CPE and this starts with establishing an effective strategic planning process within the CPE.

If the process exists, the Board's priority becomes that of making sure it functions effectively and produces plans worthy of Board approval. They may conduct a management audit to review the process, which may lead to corrective action and improvements, until reaching a confidence level which permits the Board to exercise a normal oversight and approval role. Normally, the Board will not have confidence in the planning process until supporting systems are in place which permit the Board to also continuously monitor and measure performance against plan.

There is frequent debate as to whether the full Board should be directly responsible for review of strategic plans or whether this role can be entrusted to a Board Planning Committee which recommends to the full Board. The debate has no single answer because it depends on a number of circumstances which vary widely among industries, companies, and even countries. Without entering this debate, therefore, it may be useful to review briefly the typical responsibilities which the Board should organize to accomplish in the area of strategic planning, as follows:

- (1) approving mission statements, strategic plans, annual operating and capital budgets, and specific major capital spending projects;
- (2) monitoring and critically evaluating the process for strategic planning and the supporting systems for budgeting and capital spending;
- (3) monitoring progress against plans and taking followup action when indicated;

- (4) surfacing and discussing issues vital to the CPE's future sufficiently well in advance so that plans can be evolved for positioning the business appropriately to either build competitive advantage or minimize the threats involved;
- (5) providing continuous advice and counsel to the Chief Executive Officer on major decisions impacting on the CPE's strategic direction; and
- (6) formulating and approving broad policies, which structure the CPE's strategic direction, for execution by CPE management.

This last point emphasizes that the Board must organize and conduct itself in such a way that it does not assume management's responsibility for the day-to-day functioning of the CPE. This balancing act between oversight on the one hand and doing on the other requires considerable sensitivity and experience on the part of Board members, particularly the Chairman.

What should be clear from this analysis is that the Board can organize itself to effectively establish the overall strategic direction of the CPE; to assure itself that strategic planning is effectively carried out in practice by CPE management; and to monitor and measure actual performance against plan. The exact role must vary with the circumstances but should aim towards a sufficiently detached and independent role that the Board raises discerning questions; challenges and adds to management's thought processes before approving strategic plans; and serves as a discipline for management in requiring complete and candid accounting and reporting to the Board on progress of the enterprise.

CONCLUSION

There are three key messages to leave with this audience today.

First, strategic planning is the number one task of the Chief Executive Officer and the CPE Board. We have particularly highlighted its critical importance when a public enterprise goes commercial as is increasingly becoming the urgent need today in Nigeria.

Second, strategic planning can be effectively carried out using proven techniques and methodologies, which we have called the strategic planning process.

Lastly, when the strategic planning process is carried out effectively, the roles of CPE management, the CPE Board and Government can be clearly defined to eliminate overlap, to foster sound policy decisions on strategic direction, and to provide for proper oversight and measurement of performance.

Let me add in closing that CPE Boards and managements which are effective strategic planners will also have a much easier time to work with their shareholder and to convince all interested parties that they are working effectively in the public interest.

This audience clearly has an enormous opportunity to contribute solidly to Nigeria's structural adjustment programmes and to demonstrate leadership in making the CPE's into major contributors to Nigeria's economic recovery. Let me close by wishing you good luck and happy planning!

DICK KRAMER

ARTHUR ANDERSEN & CO.

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