GOOD GOVERNANCE FOR IMPROVED PERFORMANCE IN OUR STATE-OWNED ENTERPRISES

2.1 International interest in good governance was rekindled following the high profile corporate scandals that rocked the business sector and a redefinition of the relationships between aid donors and aid recipients.

It is now a “conditionality” of international aid donors (World Bank, European Union, African Development Bank, etc.) that recipients of aid should adhere to principles of good governance – transparency, rule of law, accountability, participatory democracy, strengthening of civil society, capacity building, control over corruption, and respect for the environment.

As a result, corporate governance codes have become a global phenomenon. Over the last few years, not less than 34 countries, including Mauritius, issued their first codes and nearly all other countries have revised their codes.

Good governance stands at the core of perception of business probity and integrity, wealth creation, and reputation enhancement. Principles of good governance are the fundamental foundations on which effective and successful organisations are built and managed. In the public sector, governance stands out to be more important than in the private sector as the board is the trustee of ‘public assets” and the institutions have a dual economic and social objective. Effective governance in the public sector is essential for the optimum use of resources, for improving management and service delivery, and for strengthening accountability.

Good governance refers to the processes by which organisations are directed, controlled, and held to account. It is concerned with structures and processes for decision making, accountability, control and behaviour at the top of organisations.

Conscious of the importance and benefits of good governance, Government in its wisdom adopted the Code of Corporate Governance, which state-owned enterprises including parastatal bodies and statutory corporations are required to follow and practise. Continuing in this vein, Government in the Budget Speech 2006-2007, sent a clear message of its determination to steer public corporations, especially in cases of those that are performing below expectations.

There are two key tasks at the top of every organisation - the running of the board and the executive responsibility for the running of the organisation’s business. There should be a clear division of responsibilities at the head of the organisation which will ensure a balance of power and authority, such that no one individual has unfettered powers of decision. The recommendation contained in the Code of Corporate Governance on the duties and responsibilities of the board and levels of management addresses these issues.

The relationship between management and its board is very important to the strategic direction of an organisation. A productive relationship between a board and management adds value above and beyond governance, while a non-productive relationship impairs value and increases cost.
Studies carried out on state-owned enterprises in Mauritius have found that the main cause of poor performance of many of these government enterprises is the conflicting relationship between the chairperson and the chief executive officer. The conflicting relationship arises as a result of the chairpersons’ ignorance or disregard of their roles and functions in as much as their appointment letter does not define their roles, functions and accountability. As a result, they have a tendency to behave as “executive chairperson” vested with all the powers and authorities such post entails. Inevitably they overstep their mandate and get involved in the operations and day to day management of the enterprise. The chairpersons come to office practically daily, hence justifying the needs for an elegant office, a personal secretary, a chauffeur driven car and other benefits; they sideline the chief executive officer; they go through operational files; they summon members of staff directly and give instructions relating to operational matters; some even conduct staff meetings.

The ultimate result is that in such situations the staff are lost, confused and embarrassed with regard to their line of reporting. They are frustrated and demotivated. In such situation, conditions are set for productivity and performance to suffer. Indeed studies have found that organisations, both in the public and private sectors, which performed badly, were also often poorly governed.

Lately, instances of conflicts between the chairpersons and chief executives have hit the headlines in several state-owned enterprises. Conscious of this state of affairs, Government invited Ministers to ensure that chairpersons of the boards falling under their responsibility do not interfere in the day to day management of the organisations. However, it would appear that things have not improved in the right direction. The result is that the morale of the staff in these enterprises is at its lowest ebb, as are their productivity and performance. At this juncture of our economy, the nation cannot afford to have but a high level of productivity and performance from each and every individual and organisation. Today the challenge of creating a high performance work culture needs to take prime importance over personal interests.

In this connection, I propose the following with regard to good governance in state-owned enterprises:

- For good corporate governance to prevail and as part of a necessary system of checks and balances the roles of chairperson and chief executive officer (CEO) should not be exercised by the same individual, as is the practice in other jurisdictions. Boards of directors have to govern and give directions to the organisation’s management team. They cannot be executives as well as giving directions. Moreover one key task of the Chairperson should be to assess the CEO’s performance in running the organisation.

- The board should have an appropriate balance of executive and non-executive independent directors such that no individual or small group of individuals can dominate the board’s decision taking. In the same vein, the matrix of competencies should also be ensured.

- On appointment, board members (including the chairperson) should be given their Terms of Reference laying down their roles and functions in writing. Reference should be made to the requirements of the Code of Corporate Governance. Clear mention should be made that all members of the board have collective responsibility for decisions and have equal status in discussions. The only exception is that the chairperson is called upon to chair
and lead board meetings. Board members should recognise their collective responsibility for the board’s decisions and strive to make decisions that further the organisation’s purpose, rather than the interests of any specific group or organisation with which they are associated.

- Board members, including the chairperson, should have sufficient humility to accept that they are not always well-equipped with the demands that the governance process brings. Often they do not have the training. They should, once appointed, undertake to undergo an induction course and other training on corporate governance. In addition, the board’s performance (including the chairperson’s performance) should be appraised on an annual basis. Those who fail to discharge their duties and responsibilities should be removed. On the other hand the Board should appraise the performance of the chief executive officer.

- The board should develop a board governance policy and a code of conduct for board members to give the directors guidance for how to proceed under various circumstances that might arise and ways in which the directors may discharge their duties.

- The chairperson and board members should avoid giving direct instructions to staff members. They should also refrain from conducting management meeting with staff.

- While regular board meetings are essential for good governance, best practices suggest that four to six board meetings per year are sufficient. Too many meetings have a tendency to shift the focus of the board from strategic and policy issues to operational and day to day matters, thus paving the path for internal conflicts.

- Levels of remuneration of directors should be sufficient to attract and retain the directors needed to run the organisation successfully, but organisations should avoid paying more than is necessary for this purpose. The “per sitting” fee paid to board members may explain the large number of board meetings. Also the present quantum fee paid to board members of parastatal bodies reflects the lack of commitment from board members as well as their regular absences and replacement by junior officers, thus diminishing the board standard and status.

- The reporting requirements of the Code – timely and in-depth coverage of financial and non-financial information - should be strictly adhered to add visibility, transparency and accountability to the activities of public sector organisations.