

This work is licensed under a
Creative Commons Attribution-NonCommercial-
NoDerivs 3.0 Licence.

To view a copy of the licence please see:
<http://creativecommons.org/licenses/by-nc-nd/3.0/>

(832)
RESGRVC

ORGANISATION OF THE DECISION PROCESS IN PUBLIC ENTERPRISES
IN KENYA

- An Approach to Improve Their Internal Performance -

By

Hans G. Klaus

WORKING PAPER NO. 372

INSTITUTE OF
24 SEP 1986
DEVELOPMENT STUDIES
LIBRARY

INSTITUTE FOR DEVELOPMENT STUDIES
UNIVERSITY OF NAIROBI
P.O. Box 30197
NAIROBI, Kenya

September, 1980

Views expressed in this paper are those of the author, and should not be interpreted as reflecting the views of the Institute for Development Studies or of the University of Nairobi.

"This paper is not for quotation without permission of the authors as specified in the Copyright Act, Cap. 130 of the Laws of Kenya".

ORGANISATION OF THE DECISION PROCESS
IN PUBLIC ENTERPRISES IN KENYA

BY

Hans G. Klaus.

ABSTRACT

Efficiency of public enterprises can be influenced in a high degree by the decision making of its management. This paper deals with an approach to analyse their decision making process. Taking into account the specific constraints and structure of public enterprises it points out how the knowledge about organisation and participation is applicable to improve the decision making process at various management levels of the organisation.

Introduction

This paper analyses the decision process with regard to an application to an improved performance of public enterprises in Kenya. It is stated that the management and its decisions have a major impact on the development and efficiency of these enterprises. The knowledge of how to handle the decision process and promote useful participation will increase the quality of the Management. It is the purpose of this paper to contribute to an improvement of public enterprises performance through the analysis of the decision process and by offering a method for an inventory of the decision making consisting of decision components and a check-list. On the basis of that kind of check-up in a specific public enterprise recommendations for improvement of performance concerning the decision process will be of comprehensive and basic nature.

Organisation of the Decision Process
in Public Enterprises in Kenya

An Approach to Improve their Internal Performance

A. Functions and Types of Public Enterprises in Kenya

In the current 5-year-plan (1979 to 1983), the Kenyan Government has established its economic objectives for the development of the country. The most important objectives which are to be achieved through joint efforts of all branches of the economy, either private or state-owned, are as follows:

1. Employment
2. Kenyanization
3. Income-Distribution
4. Efficient use of capacities, resources and improvement of services
5. Rural development in terms of improvement of roads, the supply of credits, water, power and technology
6. Promotion of exports
7. Promotion of labour intensive investments especially from abroad
8. Promotion of saving
9. Improvement of taxation.

Every branch of the economy has to make its own contribution to these or some of these objectives and within each sector Parastatals play an important or more often even a dominant role in the economic development.

In Kenya, more than 60 public enterprises are operating within a mixed economy. During the last years they have provided between 10-15% of the gross domestic product. They are involved in every sector of the Kenyan economy although their activities and influence in agriculture, transport and communication, finance and insurance, electricity and water are most relevant. The criteria for establishing and operating Government owned enterprises has been defined by the Kenyan Government as follows:

1. African Socialism and its Application to Planning in Kenya, 1966 (p. 11.)

- a) When the assets in private hands threaten the security or undermine the integrity of the nation, or
- b) when productive resources are being wasted, or
- c) when the operation of an industry by private concerns has a serious detrimental effect on the public interest, and
- d) when other, less costly means of control are not available or are not effective.

Moreover, the role of public enterprises in Kenya has to be seen in the light of the principles of African Socialism and its application to planning in Kenya. This means, that nationalisation is a means to achieve an increasing participation of Kenyan citizens as entrepreneurs, managers, farmers and so forth. It also includes a complicated range of controls to enable the Government to steer and develop the national economy in a steady, continuous and coordinated process. "In order to control effectively, sufficiently and not excessively in each case many types and degrees of control are needed, ranging from none, through influence, guidance, to absolute control represented by State ownership and operation."

On the basis of that statement more than 20 Parastatals are operating in the field of agriculture with mainly regulatory functions. But they are also involved to a high degree in marketing functions, whereas property is held by private smallholders, large scale farmers and co-operatives. The agricultural sector is dominated by Statutory Boards and Authorities controlling the growing of specific cash crop products, such as tea, coffee, pyrethrum etc. by performing price stabilising functions. (Examples are: The Maize and Produce Board, The Kenya Tea Development Authority, The Coffee Board of Kenya).

Furthermore, parastatals provide for the transportation of crops to the markets, have storage facilities, and sometimes take over the processing of crops into the final product.

Nevertheless, the Parastatals are to promote private land ownership and land use for agricultural purposes by granting loans especially to smallholders and by training and consulting farmers to increase their managerial and technical knowledge. This leads to the various state

corporations whose functions are to procure funds in order to enable individuals to establish, maintain or increase private farms, enterprises in the field of agriculture, manufacturing, wholesale, retail, and tourism. In this connection, e.g. The Agricultural Finance Corporation, The Industrial and Commercial Development Corporation, The Kenya National Trading Corporation or The Kenya Tourist Development Corporation respectively, have to be mentioned. Finally, there are the sectors of transport and communication, electricity and power, building and construction, where public corporations, mainly as monopolies, provide and develop the necessary infrastructure.

There is no doubt that public enterprises play an important and continuous role in the process of economic development of the country. It must, however, be clearly understood that their activities are not directed to take over private property or well-established private enterprises or industries, but are to initiate domestic industrial investment or industries, substitute imports, promote exports in order to plan, coordinate and organise the economic development as an interrelated system.

But it must be recognised that there is a tendency of Parastatals increasing their power, attracting additional functions and establishing subsidiaries which obviously do not correspond with the original purpose.

B. Main Problems and Conditions for Decision Making

Many Parastatals in Kenya are presently in a mess.² There are a number of reasons to explain such a situation:

1. At Independence in 1963, Kenya inherited an elaborate framework of parastatals, especially in the agricultural sector which were understandably not focussed on a de-colonisation of the country and on increased citizen participation.
2. The Government increased the number of parastatals, but did not always recognise them, and the growth of the parastatals sector has not been accompanied by development of efficient management systems.

2. Republic of Kenya: Review of Statutory Boards, Nairobi, May 1979

3. Meanwhile, technology, environment, economic development and restrictions have changed to such an extent, that organisational structure, corporate planning and policy, innovations and management qualifications could not correspond with the necessary flexibility.

The Kenyan Government, therefore, has given high priority to a comprehensive review of the sector of public enterprises by establishing a committee on review of Statutory Boards in 1979 which carried out a report containing numerous recommendations for improved operational and control procedures related to parastatals.

It is the purpose of this paper here to support these investigations by focussing on the Decision Process within public enterprises. This view takes into account that it is the management and its decisions which are responsible for the success and failures of internal performance of enterprises. It is assumed, that improvement of the decision will help to solve a lot of efficiency problems of Parastatals. This approach, mainly applied in private enterprises, is based on a study of Decision Process and the responsibility decision makers have over planning and controlling procedures, the operation of purchase, production and marketing functions, the allocation of resources, such as personnel, machinery and finance and the overall functioning of the enterprise. One has to bear in mind the specific role and responsibility of public enterprises within the economic framework and must so far include the relationship between the government, the Board of directors and the Executive Management as a most relevant factor which can promote or affect the quality of internal performance of public enterprises enormously.

1. External Influences

Decision processes of public enterprises are to a high degree influenced by their role within the economy and the economic development as has been described before. Their role often changes within different stages of economic development and is often influenced by day to day

3. Republic of Kenya: Review of Statutory Boards, op. cit.

politics of the Government. Public enterprises have to act as agents of the Government but with a separate identity, a separate management by an independent Board, separate funds and public accountability. Their role being "public" and being an "enterprise" may cause conflicts in decision behaviour.⁴ Their discretion of decision processes depend on the degree of autonomy the Government may allow.

This is partly organised through the legal basis of each Parastatal constituting its functions and power. But there are also influences of decision making caused by the type of activity the public enterprise is concerned with. Mostly they have to supply services or products to the public and are charged with social functions which have an impact on their terms of operation. This may decrease their autonomy so that some policies, changes or strategies are beyond their power.⁵

On the other hand, public enterprises are operating in a given market structure which can hardly be influenced, but are influencing the discretion and organisation of decision process. Even if public enterprises are mainly operating as monopolies which require specific decisions, they have to consider alternative supply by other public enterprises or private firms (e.g. Railways). Technology and technological development also affect the decisions of public enterprises as well as decisions and regulations on markets abroad by agencies, foreign governments, international institutions and multi-national firms.

Eventually, the financial basis and perspective is important as public enterprises cannot go bankrupt because of the responsibility of the government. The same can be mentioned concerning their liability which is necessarily covered by the State.

4. Jones, Leroy P. and Mason, Edward S.: The role of economic factors in determining the size and structure of the public enterprise sector in mixed economy, LDC's, sec. BAPEG Conference, Public enterprises in mixed economy, LDC's (paper), March 1980, page 24.

5. Oettle, Karl: Grundfragen öffentlicher Betriebe I. Ausgewählte Aufsätze zur Zielsetzung, Führung und Organisation öffentlicher Betriebe, Baden-Baden, 1976, page 59.

Although public enterprises normally operate as separate identities, they are influenced by a lot of regulations and attitudes of the Civil Service or State bureaucracy which affect their discretion. So public enterprises face different kinds of risks concerning their decision behaviour and must also be considered as part of the country's cultural, educational, political, demographic, sociological, and economic (infrastructure, natural resources,) potential and constraints.⁶

2. Internal Influences

Decisions have to be made within the framework of an organisational structure which can affect or support these decisions. Therefore, changes of the organisational structure in the right direction may help to improve decision making. The organisational structure is the result of a system of tasks induced by the degree of labour division, members of the organisation, informations and technical equipment.⁷ To some degree changes of the organisational structure are beyond the disposition of a parastatal in so far as the establishment of Boards, Ministry directives and Parliamentary control is concerned. There is, however, a great deal of discretion with regard to major changes on the top management level and to minor changes below that management level.

To start with, there is the problem of subdivision of the task of the enterprise into workable units which correspond to the ability and skills of the members of the organisation so that it guarantees the overall functioning of the enterprise. Secondly this leads, to the requirement of an appropriate supply of information and exchange rules of information for and between the various working units. Members of the organisation must get the necessary authority to perform the tasks and make their decisions. This includes the discretion to delegate tasks to their subordinates. The establishment of principles on how to subdivide tasks, to establish departments, how to handle proxy, are basic conditions for the functioning of the decision

6. Kast u. Rosenzweig: Organisation and Management. A systems approach, Tokyo 1974. page 130

7. Frese, Erich: Aufbauorganisation, Schriftenreihe der Akademie für Organisation, Gießen 1976. Organisation is also defined as "the structure of the relationships, power, objectives, roles, activities, communications, and other factors that exist where persons work together"

process. Staff and committees for the various management decisions and the selection of appropriate technical equipment for the operational level may support the effectiveness of the organisational structure and make it more flexible and meet changing requirements.

Besides the organisational structure there is the climate of motivation and co-operation as an essential factor to be mentioned. The behaviour of the members of the organisation can not always be expected to be identical with the goals and intentions of the organisation. Lack of cooperation and motivation will therefore affect the quality of decision in terms of risk taking, decision making and implementation.

It is assumed that public enterprises face most of their problems in a different way to private enterprises because of different traditions in terms of goal setting, management quality, bureaucracy, government policy and directives, legal regulations, public interest and concern. External conditions influence the individual performance, behaviour and structure of public enterprises. As a consequence, recommendations for an improved decision process of public enterprises have to consider restrictions, reactions and facilities from within and from the environment of the public enterprise.

C. Modelling the Decision Process

1. The Decision Problem

The most relevant decision which has to be made in an enterprise is that of setting its goals. This induces an unceasing sequence of further decision at each management level. It is the management which is responsible for decision making, because it is a problem closely related to all management functions. Generally, decision making can be explained as applied to functions, resources and procedures in an enterprise. From this we classify decisions concerning purchase, production, marketing and these concerning personal, finance and equipment. In addition, organisation, planning and control procedures also fall under this category. All those decisions influencing the achievement of the goals of the enterprise are relevant even when they might change or replace these goals. There must be a demand for decision making either by the initiative of the decision maker or by pressure from the environment or other members of the organisation. Decisions are performed under the conditions of the time pressure and/or

complexity, financial and organisational constraints, and mostly through lack of information which provides certain risks and conflicts for the decision maker and its organisation. The decision once implemented has an impact on the decision maker, the members of the organisation, the environment and on the introduction of further decisions.

Decision problems are part of the innovation process and of the participation of employees with their ideas of improvement. An organisation without decision problems has often lost its dynamism and flexibility. Often, decision problems are obvious to members of an organisation, but the process of problem solving will not commence or will be interrupted because there is no person or group feeling responsible to take action. Therefore, it is an important approach to identify decision makers and the area of responsibility and vice versa.

2. Phases of Decision Making

Decision making can be described as a complicated process which can be separated into various properly linked and controlled phases which are organised in order of relevancy. The main aspects are preparation of the decisions which deal with information and communication, the decision itself and the transformation of the decision into action (Figure 1). All these phases have their own specific problems. The objective of analysing and explaining the phases of decision making helps to identify which elements of the process should be changed or improved. All phases of the decision process are influenced by the members of the organisation, the technology and the environment. It is stated that these three aspects are interrelated and therefore have to be analysed and harmonised concerning the decision process.

Given a high risk complex problem with limited time, which involves many people and other firms and equipment; the phases of decision process, that is, problem definition, information, communication and control and implementation (action), are expected to be performed as a recycling iterative process. (Figure 1)

2.1 Problem analysis

It is important that the decision maker defines a decision problem

Phases of Decision Process

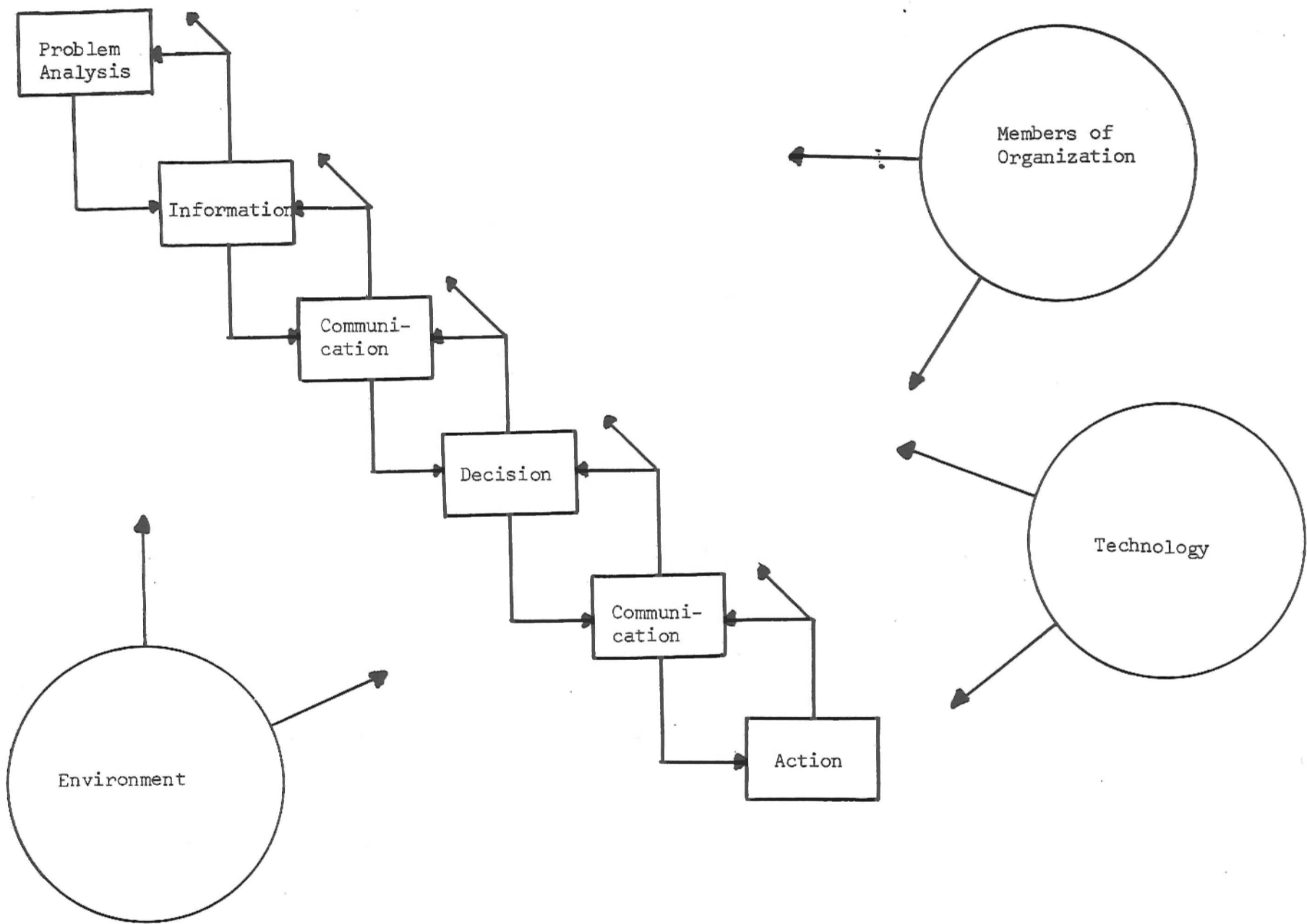


Figure 1

very clearly, otherwise the following procedure is expected to waste time due to interpretation and feed-back problems. It should be stated, which members (departments, management levels, resources) of the organisation and those from outside the organization are concerned. An analysis whether the causes for decision problems are on a policy or technical level should follow, and reveal if it is a business problem or rather a communication, organisational or an authority problem. Therefore, this phase of problem definition should at least provide information about the field of operation, terms of priority, risk and decision maker and a break-down of a decision problem, in less complex decision parts.

In most instances, the information to make an on-the-spot decision, is not available. But there are ideas about tentative solutions which have to be modified by additional information.

2.2 Information

The next step is to decide which information is necessary, which is available and which can be procured in time and with the available equipment either from sources within the organisation or from outside. Of course, the process of gathering information will consume some of the resources of the organisation, but a formalisation of such process will generally improve the quality of decision and the efficiency of its process and has to be taken as an investment in further decision problem solving. The information can be drawn from statistics, reports, and internal or external experts. There is danger that information is only perfectly gathered for theoretical purposes. Therefore, the decision maker must decide about the extent of assistance, expenses, and time which he wants to invest and which limit the information gathering phase. There may be also a need for additional information within or after the communication process is in operation.

2.3 Communication

The phase of communication is always necessary where the level of information at the end of the information gathering phase is not sufficient for the relevant decision maker. In that case he may seek advice from other members of the management, of committees or staff, project group or task force. Either single persons or these kinds of groups may help to increase the available information and especially help in evaluating it. The evaluation leads to an exchange of information,

discussion of alternative solutions their consequences, and the establishment of priorities. It should be pointed out here, that there is a difference between presenting information without comments to consultants and influencing the decision maker. Therefore the qualification commitment and availability of a decision maker and how he is able to control the decision process indicates often to which degree the decision maker can govern his own decision. As a consequence, the decision maker should be well informed about the reasons which lead to the selection of a specific solution and about the consequences of the solution he is favouring as well.

2.4 Decision

As can be seen, the difficulty of decision making can be anticipated by a phase of information gathering and selection and the phase of communication which clears alternative solutions, restrictions and consequences. To a large extent, the decision can become merely an act of announcement. The importance of announcing a decision by an important member of the organisation however, should not be underestimated. Even a high quality decision may lose its effect, if the decision maker delays the decision or has not the adequate authority to convince. The implementation of a decision can be facilitated if it is properly announced and explained to those who have to take further action in terms of reason, object, date of action, place, addressee and method. The decision maker has to justify the decision, even if it is essentially prepared by his advisor, he must, once agreed, take over the decision as his own. Only this identification will motivate him to control and have the decision transferred into the necessary actions.

Many decision makers face the problem of not being trained for such kind of decision as they may have to justify, or that they are overburdened with too many responsibilities and decision problems. As a result, the decision maker should be trained or replaced or delegated or else there should be a re-organisation of the span of control and the management hierarchy.

2.4 Communication and Control

The decision maker himself, or assisted by his staff, has to explain the decision to those who are expected to take action or have to take minor decisions as a consequence. This may lead to a communication process to convince all those members of the organisation who are affected by the decision because their support is most relevant in order to transfer the

decision into actions. Sometimes it is an advantage to have members of organisations participate during each phase of decision process as this will facilitate the phase of communication, control and motivation after the decision has been made. Where this is not possible, the role of a co-ordinator or change-agent has a linking pin in the decision process, either the decision maker himself or his deputy can be of great value.

2.6 Implementation

Implementation as a consequence of decision making brings the decision process to an end. The described process should provide for the actions to correspond with the decisions and that their consequences and effects are those as prepared in the decision process. It is very important for the decision maker to receive a feed-back if any unexpected reactions should turn up or if obstacles are preventing or delaying the action or are causing new decision problems. This may help either to revise the decision or to reiterate to another decision phase or may give useful hints to improve further decision processes in terms of training, behaviour, organisational change, change of sources of information etc.. On the basis of these arguments it should be illustrated that the phases of decisions do not follow a linear process but that each phase is reiterated if proved necessary in a following phase.

3. Participants and forms of participation in Decision Making

As already mentioned, the management is the one who makes the decisions in an enterprise. At each level one has to deal with decisions or implementations of decisions which are made on a higher level. As far as public enterprises are concerned we have to distinguish between.⁸

- 1) the Government
- 2) the Board
- 3) the Managing Director
- 4) the Managing Staff

8. Participants in Decision processes are from inside and from outside the public enterprise are mentioned in TABLE 2.

Table 2

Important Aspects
of Participation in Decision Making

| | |
|---------------------------------------|--|
| External influences | Cultural, technological, educational, political, legal, natural resources, demographic, sociological, economic, market, infrastructure. |
| Internal influences | Organisational structures, management and management level, members of organisation, technical equipment, training level, power and delegation, motivation, goal, conflict and risk aspects. |
| Outside participation | Consultants, auditing, advisory and training institutions, information utilities, workers union, parliament. |
| Inside participation | Members of the Organisation. |
| Management level | Ministry, Board, Managing Director, Managing Staff, operational Staff. |
| Phases of decision Process | Problem analysis, information, communication, decision, implementation. |
| Kinds of participation | Information, advising, decision making, controlling, approval, auditing. |
| Organisational forms of participation | Groups, committees, project groups, task forces, delegation to sub-ordinates. |

as decision levels which are relevant. As each Parastatal is established by its own act of Parliament, this legal basis may indicate the major area of decision which will be a result of the responsibility and power granted to the public enterprise by the law. Although the various laws concerning Parastatals mainly deal with the same subjects and regulations, there is up to now no comprehensive legislation like a State Corporation Act in Kenya. An analysis of the different laws reveals the following decisions and indicates how the various decision makers have to take part in the decision process as shown in the following decision table (Figure 2).

Although the government, acting through its ministries, is not part of the parastatal (body) the parent ministry has the right to give directives to the parastatal. It is represented on the Board of the public enterprise by its officials.

The statement of the law concerning the participation in decision making does not mean that the process is always running this way. It is only a framework flexible enough to differentiate the power of decision making on each level of management. It neither indicates who from the management level participates nor who else participates from the operational level and from controlling and advisory institutions from outside the enterprise.

The Board is the body of public enterprises which has to set goals for the overall policy of the enterprise according to the directives of the parent minister.⁹ It functions as a linking pin between the government and the enterprise, therefore, both sides are represented. It is the place where the government should explain its policies and how far it expects the enterprise to support and implement it. The management is to explain its problems as well. As a result of discussions a corporate plan for the enterprise's activities in the long run should come up considering financial, personnel, technological and environmental constraints. There should be no directives of the Board to other management levels except through the Managing Director. It is very important that the Managing Director is able to interpret goals policies and plans to his subordinate Managers.

9. Szyperski, Norbert: Das Sehen von Zielen: Primäre Aufgabe der Unterne mensleitung, in: Zeitschrift für Betriebswirtschaft, Jg. 41, 1971, page 661.

PUBLIC ENTERPRISES IN KENYA

Participants in Decision Making

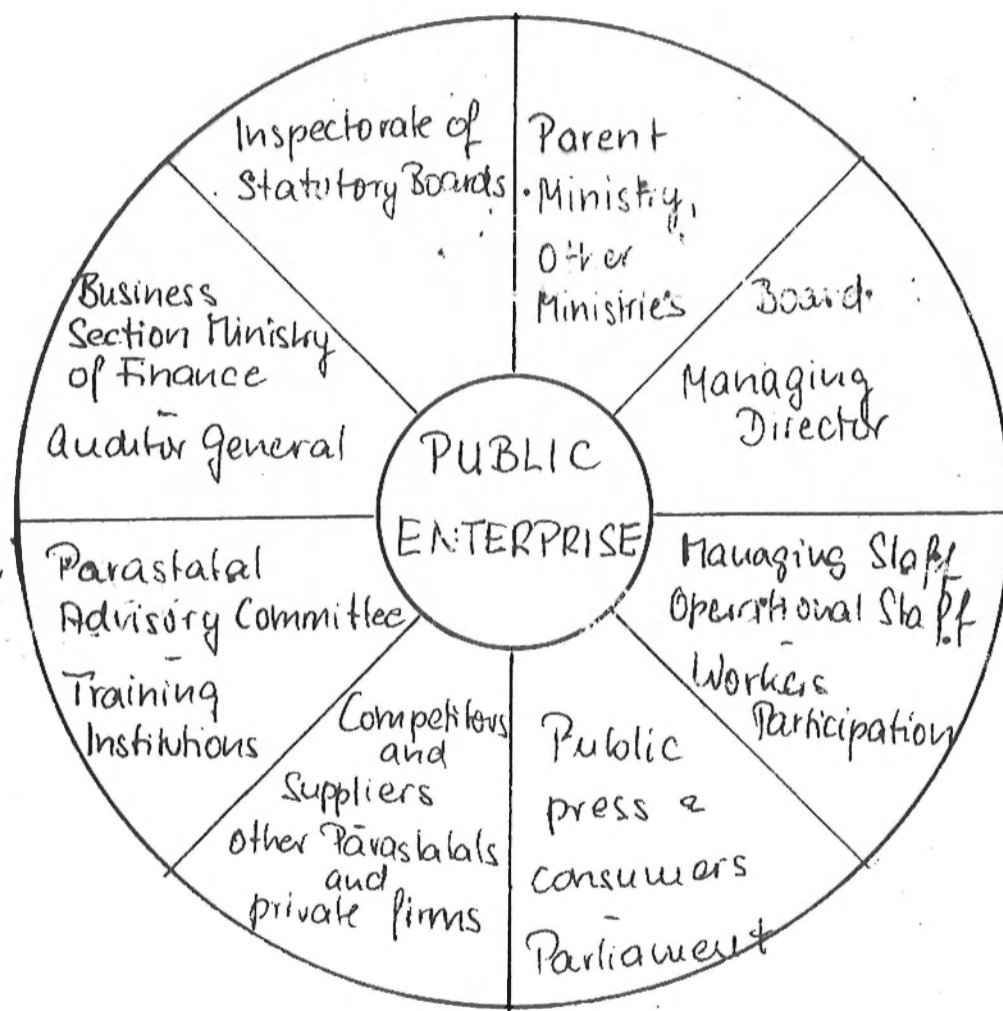


Figure 2

PUBLIC ENTERPRISES

Decision Rules according to Legal Provisions

| Power | Ministry parent Finance | | Board | Managing Director |
|---|----------------------------|---|---------------------|---|
| to give general directions to the Board | X | | | |
| to approve any major alterations in the tariffs, rates, fares | X | X | minor X | |
| to approve any major alterations in salaries, wages or other terms and conditions of service of employees | X | | minor X | within limits determined by X the Board |
| to appoint employees | | | X | |
| to approve any individual capital work of which the estimated cost exceeds 5 Mio. KSh | X | X | below 5 Mio. X KSh. | below 400.000 KSh. X |
| to give particular directions to the Board concerning any matter involving agreement with, or the interest of any other company/country | X | | | |
| to determine the limits of minor alterations | X | | | |
| to establish from among its members committees and delegate functions | | | X | |

| Power | Ministry parent Finance | Board | Managing Director |
|---|----------------------------|-------|---|
| to consider legislative proposals and recommend their enactment to the minister | | X | |
| to approve any alterations in the or establishment of the enterprise | | X | to approve any alterations in the establishment of the enterprise other than an alternation involving a major reorganisation or substantial reduction of the numbers of employees |
| to give directions to the Managing Director | | X | |
| to establish and operate services or production | | | X |
| to approve recurrent expenditure, within limits determined by the Board | | | X |
| to allocate functions to employees | | | X |
| to delegate functions | | X | X |

There are increasing degrees of participation in decision making, which can be chosen by a decision maker:

1. Manager makes decision and announces it
2. Manager "sells" decision
3. Manager presents ideas and invites questions
4. Manager presents tentative decision subject to change
5. Manager presents problem, gets suggestions, makes decision
6. Manager defines limits and asks group to make decision
7. Manager permits subordinates to function within limits defined by superior.¹⁰

The process of decision making in a complex and developing organisation is mostly supported by advisory persons or committees or by delegation of decisions or parts of decisions at points as near as possible to where actions take place.¹¹

It is typical for Manager to have advisory functions in one instance and decision making ones in others. It is therefore essential for an enterprise to make use of its members full potential.

Therefore, participation in decision process can contribute

- to improve the quality of decision concerned
- to increase motivation and innovative ideas of members of the organisation which are involved
- to improve the potential and experience of participants in following decision processes
- to promote implementation of decisions within the organisation.

On the other hand the decision maker has to consider the costs of participation in terms of working time spent by participants and of coordination and organising the pattern of participation. These aspects

10. Tannenbaum, Robert; Schmidt, Warren, H.: How to choose a Leadership Pattern, Harvard Business Review, March-April 1958, page 96.

11. Hampton, Summer, Webber: Organizational Behaviour and the Practice of Management, Rev. Ed. 1973, Glenview, Illinois, page 498.

often leads to seek assistance in the decision process from outside the enterprise if it is less costly and time consuming.

If a minister does not act through directives to the public enterprise he may perform his control by veto or approval of a management decision. This kind of participation leaves the entire process decision making to the management whereas the implementation of the decision depends on the viewpoint of the government.

Concerning public enterprises there is of course the Parliament as the controlling institution. Parliament normally makes decisions on public enterprises when they are going to be established by Parliamentary Act. But there may also be other opportunities as there are debates on the Presidential Speech, debates of a new development plan or discussion of a corporations report or account.

Are there additional useful functions of controlling and auditing personnel concerning the decision making process? An ex-post analysis of decision process and decisions may in fact help to improve future decisions if the decision maker receives a feed back. Of course, circumstances for further decisions may be quite different so that the auditing results cannot simply be transferred. However, an independant auditor from within or outside the enterprise, who is becoming a specialist in decision cases analysis could give useful limits to the decision makers if documentation of the decision process is provided. He could even participate usefully during the process of decision making, advise in procedures and prevent inefficient methods. If his ex post findings are published in a report they may urge decision makers to look at their future decision making very critically.¹² The public is involved also as a partner in decision making as publication on public enterprises in the press may force review priorities and policies of the Management, Board and Government.¹³

12. Aharoni, Yair: The State-Owned Enterprise: An Agent without a Principle, Second BAPEG Conference "Public Enterprises in Mixed Economy LDC's" (Paper) February 1980, page 21

13. See Appendix, Survey on Press Statements during the period of May 1979 to April 1980.

The report on review of Statutory Boards has emphasised the importance of those Institutions like the Inspectorate of Statutory Boards, the business section of the Ministry of Finance, the Auditor General, the Parastatal Advisory Committee recently established.¹⁴ Whereas public enterprises should also consider training institutions (to improve decisions capabilities in the long run) in cooperation with other Parastatals in areas of similar problems, one should bear in mind that the enterprise should not only rely on outside support as this could affect its autonomy.

D. Improving capability and motivation for Decision Making

Decision making is a complicated process especially within a modern public enterprises which have to consider specific internal and external constraints. Wrong decisions, lack of decision or those made with delays as well as insufficient interpretations to the sub-ordinate level of the organisation can have an impact on the efficiency and success of the enterprise. Attention should therefore be drawn to how the capability of decision makes could be improved. Even if conditions favour this capability there must be measures to promote the motivation for decision making if there is an aversion to risk taking and initiative. Decision making needs orientation with regard to declared goals. Therefore, goal setting, goal specification and explanation for each management level is essential.¹⁵

This point can be crucial in public enterprises because there is a frequent tendency to changes of goals by goal displacement, goal succession or goal diversification.¹⁶ Goal analysis at the level of Ministries and Boards as well as Management by objectives as a management technique may improve the situation and clear the goal setting and interpretation problem.

Besides goal setting the manager needs the support of the various management levels, groups and of the operational level, ranging from sharing

14. Republic of Kenya: Review of Statutory Boards, Nairobi, May 1979.

15. Friedrich, Pater: Führungsprobleme öffentlicher Unternehmen, in: Auftrag und Führung öffentlicher Unternehmen, Schriftenreihe der Hochschule Speyer, Band 68, Hrsg. v. Peter Eichhorn, Berlin 1977, page 108.

16. Schneider, Siegfried: Zielwandel öffentlicher Unternehmen in: Zeitschrift für öffentliche und gemeinwirtschaftliche Unternehmen, Band 2, Heft 1, 1979, page 44.

the decision responsibility to advisory or information support. Of course he must get the approval and the support of the Board because this will promote the participation of other members of the organisation. Where high quality solutions, the creation of many alternatives and also highly accepted solutions are required, the establishment of decision groups or committees is highly recommendable. It should also be kept in mind that those participating in decision making also need motivation. That means that their contribution in terms of time, ideas and knowledge should be appreciated and should not affect them as far as their normal field of operation within the organisation is concerned. Improvement of decision process also depends on the appropriate selection of organisational of participation.

The organisational structure must grant a Manager the necessary power to coop advisory persons or groups, working groups and committees, even from outside the formal structure of the organisation, in order to delegate part of the decision problem and receive personal aid and financial support.

Formalisation and standardisation of decision procedures is another means supplemented by documentation of the various stages of decision process. As a consequence, the manager himself has to be trained in decision making, problem solving, decision and presentation techniques and motivation of third parties.¹⁷ This leads to measures in order to improve his own motivation by financial or other than financial incentives. There should be a reward system for all participants especially the responsible manager, if a decision made has proved to be successful, although often a visible relation between a decision and the improvement of the efficiency of the organisation may not be obvious.

Whether a manager tends to make use of the abilities of other members of the organisation or a participation in decision process depends to a high degree also on

1. his value system
2. his confidence in his subordinates
3. his own leadership inclinations
4. his feeling of security in an uncertain situation.¹⁸

17. Mayo, Smith, Ian: Barriers to effective Performance in public enterprises, Conference report: Improving performance in public enterprises, Arusha/Tanzania 1975, pages 27 and 36.

18. Tannenbaum, Robert; Schmidt, Warren, J.: how to Choose a Leadership Pattern, in: Harvard Business Review, 1958, p. 99

Influencing this attitude towards confidence to a well trained staff within a formalised framework can motivate the Manager to have participation as a step before delegating part of the decision responsibility to lower levels of the organisation.

Participation gradually increased over various decision phases or specialisation in the problem solving of one decision phase will enable the staff to correspond to the demands of the Manager.

While participation in decision making is a desirable aim to promote efficiency, limiting factors must also be considered.

Besides problems of cost aforementioned, participation may go to lengths where it breaks organizational regulations or even the state laws in which case it can be regarded as interference since it had no approval of the decision makers.

Therefore, part of the motivation of the Management of public enterprises is to organise participation of Ministries, Parliament and outside advisory and auditing bodies in such a way, that it will not prevent Management from taking initiative and responsibility for company decisions.¹⁹ The necessary degree of autonomy of a public enterprise for decision making is sometimes defined as follows:

- freedom from the annual appropriation process at least for operating expenses
- freedom to receive and retain operating revenues
- freedom to apply operating revenues to operating expenses
- freedom from general Government restrictions particularly in the field of expenditure

19. "Where an enterprise is subject to detailed parliamentary scrutiny, it is more likely to acquire as principal executives not managerial innovators, but those skilled in parliamentary "gamesmanship" (Report of UN Seminar on Organisation and Administration of Public Enterprises, UN 1966, ST/TAO/M/ 35,36.

- freedom from normal Government appropriation accounting
- freedom from normal Government audit of operations
- freedom from central purchasing and contracting requirements
- other related freedoms like freedom to borrow money, to hire and fire, to pay salaries at the discretion of the enterprise and freedom to control its long-term planning.²⁰

20. Puranik, S.N.: The Problem of Autonomy and Control in Public Enterprises in India, in: The Indian Journal of Public Administration. Quarterly Journal of the Indian Institute of Public Administration, Volume XXIV, 1978, page 1046, and

Prasad, Parmanand: Some Economic Problems of Public Enterprises in India, Leiden 1957, page 59.

Conclusion

The purpose of this approach is to improve the efficiency of public enterprises in Kenya through an analysis of the decision process. This process is influenced by internal and external effects and by the decision makers on each management level and all other participants in decision making. On the basis of the described framework and influencing factors, individual case studies of public enterprises should follow in order to evaluate the described framework with regard to its relevance to public enterprises. Consequently, former decision cases and actual decision problems of public enterprises have to be analysed in order to supply applicable recommendations for the improvement of the decision process in an individual case. (Figure 3)

Decision Process in Public Enterprises

Appendix

I. Check-List for Diagnostic Purposes

II. Survey on Press Reports on Public Enterprises
in Kenya

III. Bibliography

Check-List

This check-list can be used in different ways for a diagnosis of the enterprise decision making performance.

1. Historical cases of decision making can be selected to be evaluated according to the check-list
2. An actual problem and process of decision making can be checked at the beginning, organised and controlled according to the check-list or simply compared at the end with the components and statements of the check-list.
3. The general regulations of the organisation and behaviour concerning decision processes can be analysed and organised on the basis of the check-list. Eventually, all of the three alternatives can be useful for diagnostic purposes in order to improve the decision making of the public enterprise.

For diagnostic purposes in a specific enterprise it is intended to use the check-list in a more detailed and modified version according to the specific needs and business.

Check-List

Section I

Major Decision Cases

(Remember one decision case in each area of operation which you consider as an important decision case or problem)

Finance

| | kind of decision | | | | | | |
|---|------------------|-------------|------------|-------------|--------------|---------------|---------------|
| | Com- plex | ur- gent | ris- ky | cost- ly | rou- tine | fre- quent | over- lap, |
| Investment | | | | | | | |
| Budget | | | | | | | |
| capital supply (equity, borro- wing, loans) | | | | | | | |
| expenses | | | | | | | |
| disposal of sur- plus funds | | | | | | | |
| acquisition of assets | | | | | | | |
| disposal of assets | | | | | | | |
| writing off losses | | | | | | | |
| dividends declaration | | | | | | | |
| other | | | | | | | |

Short description of the selected decision case and problems

Personnel

| | kind of decision | | | | | | |
|--------------------|------------------|-------------|------------|-------------|--------------|---------------|---------------|
| | comp- lex | ur- gent | ris- ky | cost- ly | rou- tine | fre- quent | over- lap. |
| appointment | | | | | | | |
| promotion | | | | | | | |
| selection | | | | | | | |
| evaluation | | | | | | | |
| wages | | | | | | | |
| working conditions | | | | | | | |
| incentives | | | | | | | |
| social services | | | | | | | |
| others | | | | | | | |

Short description of the selected decision case and problem:

Organisation

| | | | | | | | |
|----------------------------------|--|--|--|--|--|--|--|
| structure of departments | | | | | | | |
| discretions | | | | | | | |
| establishing of staff | | | | | | | |
| of committees | | | | | | | |
| of project groups | | | | | | | |
| definition and outlay of reports | | | | | | | |
| job descriptions | | | | | | | |
| work flow design | | | | | | | |
| other | | | | | | | |

Short description of the selected decision case and problem:

Marketing

| | kind of decision | | | | | | |
|--------------------------|------------------|-------------|------------|-------------|--------------|---------------|---------------|
| | comp- lex | ur- gent | ris- ky | cost- ly | rou- tine | fre- quent | over- lap. |
| prices and tariffs | | | | | | | |
| service conditions | | | | | | | |
| market research | | | | | | | |
| diversification | | | | | | | |
| new products or services | | | | | | | |
| customary relations | | | | | | | |
| advertising | | | | | | | |
| export decisions | | | | | | | |
| sales policy | | | | | | | |
| sales organisation | | | | | | | |
| others | | | | | | | |

Short description of the selected decision case and problem:

Production

| | kind of decision | | | | | | |
|---------------------|------------------|-------------|------------|-------------|--------------|---------------|---------------|
| | comp- lex | ur- gent | ris- ky | cost- ly | rou- tine | fre- quent | over- lap. |
| Planning | | | | | | | |
| quality control | | | | | | | |
| machinery operation | | | | | | | |
| maintenance | | | | | | | |
| others | | | | | | | |

Short description of the selected decision case and problem:

Purchase

| | comp- lex | ur- gent | ris- ky | cost- ly | rou- tine | fre- quent | over- lap. |
|--|--------------|-------------|------------|-------------|--------------|---------------|---------------|
| tenders | | | | | | | |
| assets | | | | | | | |
| raw materials | | | | | | | |
| machines | | | | | | | |
| purchasing policy and procedure | | | | | | | |
| kind, quantity and quality of raw materials | | | | | | | |
| of machines | | | | | | | |
| selection of suppliers | | | | | | | |
| purchase conditions | | | | | | | |
| prices | | | | | | | |
| import decisions | | | | | | | |
| others | | | | | | | |

Short description of the selected decision case and problem:

Warehouse

| | | | | | | | |
|------------------------------|--|--|--|--|--|--|--|
| Main items | | | | | | | |
| control system | | | | | | | |
| minimum and maximum stock | | | | | | | |
| quality control | | | | | | | |
| consumption control | | | | | | | |
| spare parts | | | | | | | |
| others | | | | | | | |

Short description of the selected decision case and problem:

Public relations

kind of decision

| | comp- lex | ur- gent | ris- ky | cost- ly | rou- tine | fre- quent | over- lap. |
|---|--------------|-------------|------------|-------------|--------------|---------------|---------------|
| Contacts to workers union | | | | | | | |
| competitors to the press co-operation with other public enterprises | | | | | | | |
| others | | | | | | | |

Short description of the selected decision case and problem:

Training and Research

Selection of participants
 training needs
 programmes
 research objects
 research priorities
 application of research results,
 strategy for R & D.
 others

Short description of the selected decision case and problem:

Goal Setting and corporate planning

kind of decision

| | comp- lex | ur- gent | ris- ky | cost- ly | rou- tine | fre- quent | over- lap. |
|------------------------|--------------|-------------|------------|-------------|--------------|---------------|---------------|
| goal definition | | | | | | | |
| new company activities | | | | | | | |
| branches | | | | | | | |
| subsidiaries | | | | | | | |
| products and services | | | | | | | |
| long-term-planning | | | | | | | |
| annual planning | | | | | | | |
| plan control | | | | | | | |
| finance | | | | | | | |
| personnel | | | | | | | |
| organisation | | | | | | | |
| marketing | | | | | | | |
| purchase | | | | | | | |
| production | | | | | | | |
| warehouse | | | | | | | |
| public relations | | | | | | | |
| training and research | | | | | | | |

Section II

1. Which were the external constraints for decision making?

- a) market
technical
political
educational
social
infrastructure
others

2. Which were the causing facts for the decision process?

3. Who was responsible for the decision?

- Ministry
Board
Managing Director

4. Whom wanted the decision maker to participate in the decision?

- Committee
Staff
Project Group
Management level
Levels
Operation Staff

(indicate also the role of the participant in decision making as there are information (1) advise (2) preparation (3) control (4) veto (5) approval (6) audit (7)

5. How many persons were involved in the decision process for

- problem analysis
information gathering
communication
decision making
implementation

6. Who was mainly involved in the preparation of the decision?
7. How many management levels are established in the enterprise and how many were involved for this decision case?
8. Whom wanted the decision maker to participate from outside the enterprise?

Ministry

Inspectorate of Statutory Boards

Business section of Ministry of Finance

Auditor General

Consultant

Parastatal Advisory Committee

Workers Union

Others

(indicate also in which phase of decision making the participant from outside the enterprise was mainly involved, as there are problem analysis (1), information gathering (2), communication (3), decision making (4), implementation (5)

9. How long did the whole decision process take?
10. What was your estimated cost of decision making in terms of financial resources and manpower?
11. What was the value of the decision object?
12. How many departments were involved?
13. Was the decision process guided by established management, by exceptional rules?
14. Did clearly defined company goals support the decision making?
15. What was the position and qualification of the decision maker?

16. Was the decision made by

- individual decision
- delegation to lower level
- group decision?

17. Which were the external effects of the decision?

- market
- technical
- political
- educational
- social
- infrastructure
- others

18. Who from outside the company was concerned?

- other Parastatals
- competitors
- suppliers
- public
- others

19. Which were the internal effects of the decision?

- a) which departments were concerned
- b) which members of the organisation were concerned
- c) which functions were concerned
 - planning
 - organisation
 - control
 - communication
 - company goals
 - co-operation
 - finance

staffing
marketing
purchase
warehouse
research
training
production

20. Which implementation procedures supported the decision process?

announcement
training
documentation
information
participation and control

21. Which are the main problems of decision making in this case?

quality of information
delay in information supply
lack of co-operation
absence of participants in decision process
unspecified responsibilities
delay in approval or lack of support
unspecified objectives
conflict of objectives
others

Section III

Identification

1. Branch of Industry

- Agriculture
- Mining and Quarrying
- Building and Construction
- Manufacturing
- Tourism
- Trade
- Traffic
- Finance and Insurance
- Power and Communication
- Development

2. Type of products or services

3. Number of products or services

1963 1970 1979

- Number of employees
- Turnover
- Equity
- Grants
- Loans
- Sources of funds
- Losses
- Profits
- Number of competitors in Kenya
- % of market in Kenya
- Number of suppliers in Kenya
- Number of suppliers abroad
- % age of production for export
- % age of imported materials

| | |
|---|---|
| National Housing Finance Company of Kenya | Explains housing problems and progress |
| ICDC Investment Company of Kenya | 1978/1979 less profit |
| Kenya Co-operative Creameries | Comment on annual report. |
| Development Finance Company of Kenya | 1978 investments and commitments reaching record level. |
| 4. <u>Establishment of Public Enterprises</u> Kerio Valley Development Authority | |
| 5. <u>Financial and Organisational Problems</u> | |
| East African National Shipping Line Kenya Railways | Lack of capital supply, winding up procedures, irregular financial transactions, statement of the Management. |
| ICDC - Industrial and commercial Development Corporation | Problems to recover loans. |
| Kenya Tea Development Authority | Public statement regarding alleged loss of funds. |
| Kenya National Trading Corporation | Report on irregular financial transactions. |
| Kenya Co-operative Creameries | Milk supply and distribution problems. |
| Kenya Railways | Minister denies report on mis-management. |
| Kenya Tea Development Authority | Conflict between the Authority and private firms owned by officials of the Authority. |

Cotton, Lint and Seed
Marketing Board

Financial crisis, lack of
adequate ginneries and storage
facilities, delay in repayment
of loans from cotton growers.

Kenya Meat Commission

Report on financial mis-management,
problems of overstaffing, lack of
standardisation.

Rivatex Company Ltd.

Poor management and selling
procedures cause losses.

5. Organisational Changes

Kenya Posts and Tele-
communications Corp.

Reorganises its services in a
de-centralisation exercise.

National Cereals and
Produce Board

Establishment of maize stores
in strategic areas in the maize
growing zones for easy collection
and prompt payment to farmers.

East African Power and
Lighting Company

Reorganisation of the Management
structure.

6. Announcement of Programmes, Plans, Priorities

Kenya External Telecom-
munications Company

Publication on salaries review
report.

Kenya Tourist Develop-
ment Corporation

Developed Tourist facilities
serve as catalyst in the Kenya-
nisation of Tourist Industry.

Kenya External Trade
Authority

Publication of papers tackling
promotion of handicraft exports,
manufacturing for export, informal
industries and exporting, packaging
for exports, training for export
promotion.

| | |
|--------------------------|--|
| Kenya Fishing Industries | Specialises in deep-sea-fishing. |
| Kenya Industrial Estates | Establish Industry in rural areas. |
| Kenya Power Company | Steam Power: Alternative sources of energy. |
| Kenya Airways | Strengthening of marketing as a result of increasing cost of fuel. |
| Kenya Ports Authority | Development Programme to improve Ports capacity. |

Bibliography

- Aharoni, Yair: The State-Owned Enterprise: An Agent without a Principle, Second BAPEG Conference "Public Enterprises in Mixed Economy LDC's (paper), February 1980.
- Frese, Erich: Aufbauorganisation, Schriftenreihe der Akademie für Organisation, Gießen 1976.
- Friedrich, Peter: Führungsprobleme öffentlicher Unternehmen, Schriftenreihe der Hochschule Speyer, Bd. 68, hersg. v. Peter Eichhorn, Berlin 1977.
- Hampton, Summer, Webber: Organizational Behaviour and the Practice of Management, Revised Edition 1973, Glenview, Illinois.
- Hick, Herbert, G. and Gullett, Roy, C.: Organizations: Theory and Behaviour, Tokyo 1975.
- Jones, L.P., Mason, E.S.: The Role of Economic Factors in Determining the Size and Structure of the Public Enterprise Sector in Mixed Economy LDC's, Second BAPEG Conference "Public Enterprises in Mixed Economy LDC's" (paper), March 1980.
- Kast and Rosenzweig: Organization and Management. A Systems Approach, Second Ed. 1974, Tokyo.
- Mayo-Smith, Ian: Barriers to Effective Performance in Public Enterprises, Conference Report: Improving Performance in Public Enterprise, Arusha/Tanzania 1975.
- Oettle, Karl: Grundfragen öffentlicher Betriebe I. Ausgewählte Aufsätze zur Zielsetzung Führung und Organisation öffentlicher Betriebe, Baden-Baden 1976.
- Prasad, Parmanand: Some Economic Problems of Public Enterprises in India, Leiden 1957.
- Puranik, S.N.: The Problem of Autonomy and Control in Public Enterprises in India, in: The Indian Journal of Public Administration, Quarterly Journal of Indian Institute of Public Administration, Vol. XXIV, 1978.
- Republic of Kenya: Review of Statutory Boards, Nairobi 1979.
- Report of UN Seminar: Organisation and Administration of Public Enterprises, UN 1966, ST/TAO/M 35 and 36, held at Geneva, Switzerland 26.9.-4.10.1966.
- Republic of Kenya: African Socialism and its Application to Planning in Kenya, 1965, Sessional paper.

Decision Components in Public Enterprises

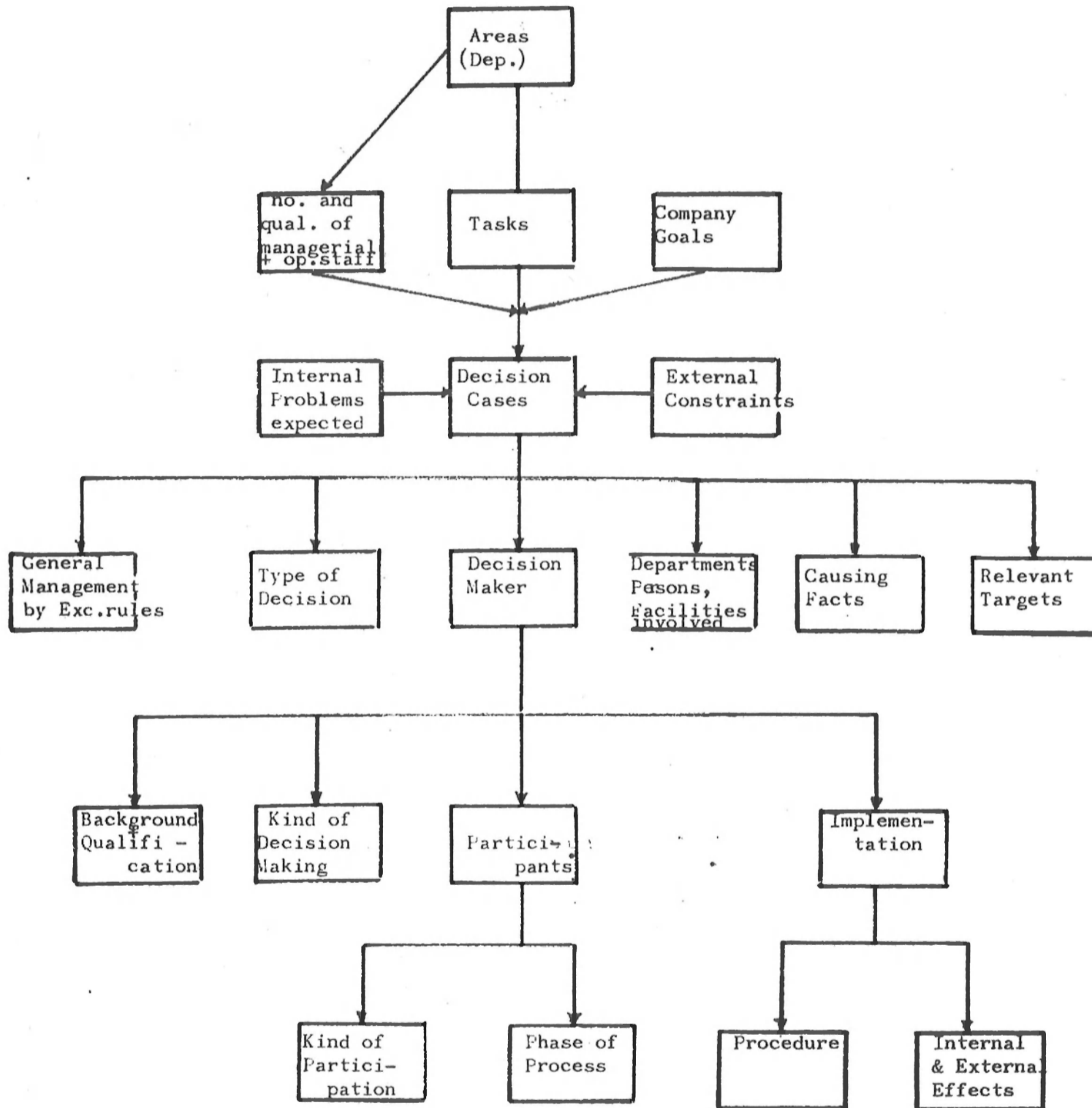


Figure 3.

- Schneider, Siegfried: Zielwandel öffentlicher Unternehmen,
in: Zögle, Band 2, H. 1, 1979.
- Szyperski, Norbert: Das Etzen von Zielen - Primäre Aufgabe der
Unternehmensleitung, in: Zeitschrift für
Betriebswirtschaft, Jg. 41 (1971).
- Tannenbaum, Robert;
Schmidt, Warren, H.: How to choose a Leadership Pattern,
Harvard Business Review, March-April 1958.