

Launching the Performance Contract System

As discussed earlier, the process of installing a PC system depends on a number of factors, including the environment in which the PC is implemented, the number of performance indices included in the contract and the institutional arrangements.

The best performance contracting arrangements are those which are introduced as one of the measures in the comprehensive reform package for PEs. A government policy might classify public enterprises as those to be wholly privatised, partially privatised and those to remain in the public domain. Each country will need to decide on this classification, but the important thing is that a clear-cut government policy is necessary right from the start. Such a policy may be backed up by a government white paper or even an Act of Parliament.

Invariably, public enterprises which continue in the public sector may become prime candidates for the introduction of the PC system. Typically, such a list would include public utilities, mining enterprises, core industries for industrial growth, i.e. industries which have a very significant forward and backward linkage and industries which produce goods which have to be distributed to the poor through non-market channels. This list would contain only enterprises which have long-term goals and social benefits which cannot easily be captured under the financial accounting system usually adopted in the preparation of the balance sheet and profit and loss account in the conventional way. There may also be industries which have some special environmental benefits.

Depending on the size of industries slated for the performance contracting system, the institutional arrangements should be designed and installed. Typically, the responsibility for guiding performance contracting and monitoring the achievement should be given to a neutral department or ministry of the government such as the Department of Public Enterprise, Bureau of Public Enterprise or Planning Department or the Prime Minister's Office. Needless to say these agencies would be having a large variety of duties and the responsibility for performance contracting should be entrusted to a separate division. This would become the secretariat of the PC system.

There should be a special agency to guide and monitor the performance contract. Since the actual contracting is usually done, by the head of the administrative machinery or ministry and the Chief of the PE, the monitoring agency should be headed by someone senior to them. From the experiences of different countries, it

appears that the arrangement is to have a minister, or someone of ministerial rank, designated by the President or Prime Minister to head the monitoring agency. Members should be representatives of the highest levels from the PEs, industry, finance and planning.

Depending on the number of PEs brought under the PC system, one or more teams/task forces should be formed. The members of the teams could be those who do not currently have contact with PEs. They could be former chief executives, secretaries to government, leaders of private industries who do not have conflicts of interest with the PEs, academics, retired labour leaders or representatives of people's institutions like the Consumer Council, the Environmental Forum and so on. The whole team/task force may be large but it should be divided into small teams, each of which is entrusted with three to five enterprises. Each of these small task forces should advise on the terms of the contract and later review the performance with reference to the terms of the enterprises. An information sub-system should be set up and this could be entrusted to an existing academic or consultancy agency.

One way to start off the performance evaluation system is to have a workshop of all the PEs participating in the PC system, including the ministries and members of the task force. Such an approach would simplify the process. Another way is to entrust this task to a group of experts who will then issue a report for distribution to the PEs affected.

It may be useful to provide an opportunity to task force members to visit the enterprises which they are to guide to see for themselves the conditions under which they operate.

There should be two sets of meetings every year. One at the time of performance contract setting and a second when the performance is fully known and needs to be reviewed. It should be noted that it would not be possible under the normal annual budgeting system followed in most countries to fix targets after knowing the performance of the previous year. Typically, the budget year is April to March. All the financial commitments made by the government and the promises of achievement by the PE in the contract would be taken into account in finalising the budget for the year beginning in April. In order to do this, the figures have to be supplied by the PE not later than the end of January. In effect, figures for approximately six months' performance should be available when setting the contract for the next year. The performance as audited should be available between July and September. It would be good practice to have a review meeting in August/September.

Check-list for the Successful Operation of PC

Before launching the PC system, it is important to take careful note of the factors which may significantly influence the successful operation of the system.

First, a policy statement on the introduction of a PC system should be issued. The statement should clearly set out the goals and objectives of the system to be designed and the institutional framework to be used. A performance contracting system can be simple or complex depending on the policy pronouncements of the government. It can be an elaborate system which may involve several ministries playing a developmental role in relation to the public enterprises affected, or it may be a simple system that involves only key ministries deemed to represent the interests of other administrative ministries. The important point is that a clear-cut institutional framework should be available.

Second, categorise or classify the PEs with a view to identifying the enterprises to be contracted. This is usually done through studies and requests that enable governments to make the crucial policy decisions.

Third, the PEs to be contracted should first set their house in order. Each should have a corporate plan. The design of a corporate plan is usually a pre-requisite to signing a performance contract. PEs up for contracts should therefore be required to go through the exercise of producing a corporate plan.

Fourth, the performance contracting system needs to be "sold" to the PE management and rank and file. This already assumes that the government has the political will to carry out the reform. The "selling" can be done in various ways, including seminars and workshops for appropriate officers, policy statements, information and other data disseminated through the media – electronic and print – and circulars.

Fifth, and to summarise, PCs are most successful when there is:

- a high level of political commitment for PE reforms;
- an adequate system and agency for monitoring the enterprise performance;
- an in-depth organisational study before entering into the contract;
- an adequate management information system;
- an institutional framework – especially a technical unit established and located at the appropriate level of government;

- an extensive and meaningful involvement of the management team and their officials in preparing for performance improvement, including, as a pre-requisite, the development of a corporate plan;
- a capable management imbued with team spirit;
- rewards and sanctions closely related to performance;
- agreement among the enterprise management, supervisory ministry and central agencies on the key assumptions in the PC system and the strategic directions of the PE.

CASE STUDIES

