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ACCOUNTABILITY MECHANISMS IN PRIVATISED COMPANIES: INTERCITY STATE TRANSPORT CORPORATION (STC) AND GHANA AGRO FOOD COMPANY (GAFCO)

Patience Obeng Ahwireng
University of Professional Studies, Accra, **GHANA**

ABSTRACT

This study investigates the effect of privatisation on accountability with focus on organizational structures and mechanisms of accountability before and after privatisation in Intercity STC and GAFCO. The study employs qualitative methods in the form of interviews and a survey as the research instruments used. The key findings from the research revealed that the mechanisms before privatisation have been improved upon; however these new mechanisms have not been effective in ensuring accountability. The researcher recommended that successive governments should be transparent in the sale of State Owned Enterprises so that management and non-management employees will know who they are accountable to, and can call on them when the need arises instead of calling on the government of the day for help even after privatisation.

INTRODUCTION

The study examines issues concerning privatisation of the public sector and accountability processes in privatised enterprises in Ghana, with focus on Intercity STC and Ghana Agro Food Company (GAFCO) both in the Greater Accra Metropolis of Ghana. The objective of the Government of Ghana to develop and move from low income to middle income status through private sector participation and development as well as foreign investment, requires accountability in public life. However, despite the various accountability institutions and legal provisions enshrined in the constitution to ensure that public enterprises operate efficiently and accountably these have not materialized (Rahaman, 2004). Rahaman et al (2004) also argued that large public sector deficits in Ghana were as a result of poor accountability mechanisms and have been identified as an impediment to economic development.

Ghanaian governments, spurred on by donor agencies, adopted privatisation of State-Owned Enterprise (SOEs) as pragmatic reaction to the failures of state enterprises (Adhikari and Kirkpatrick 1990). STC and GAFCO have been privatized. Therefore, these two companies were chosen for this study.

Privatising public enterprises will lead to improved accountability and performance (Coghil and Scott 2000). However, some privatized enterprises are at the verge of folding up even after privatization. What accounts for this?, It is in this direction that the study seeks to assess the accountability mechanisms before and after privatisation in both STC GAFCO. The rational for choosing these companies are that, both companies have been privatised and they are both in the Greater Accra Region of Ghana which makes accessibility easier. The objective of the study is to identify the structures of accountability before and after privatisation in GAFCO and Intercity STC. To assess the mechanisms that existed before and after privatisation.

Enterprises have been privatised to improve on their performance and enhance accountability. Although the literature on privatisation and performance is vast, there is little to go by on privatisation and accountability. The idea of accountability is that when we are requested by others to achieve something, we report back to them on how we have performed (Hughes, 1994). In other words, it is answering for one's actions (Ott and Russell, 2001).several scholars have articulated various mechanisms for ensuring accountability.

Mo (2000) in his study compared accountability mechanism in private bus operations and that of the public .He points out that "Laws like the Administrative Procedure Act; the Freedom of Information Act and Whistle-blowers legislations have been powerful tools in laying bare the inner workings of government". In particular, "the freedom of Information Act requires that agency files be opened to the public upon demand; however even though it is an accountability mechanism it is not done in the privatised enterprise. His study shows that privatised operators are not willing to open their records to the public.

Luke (2008) noted that before SOEs in New Zealand were made to engage in entrepreneurial activities just like the private, their reporting structure, dimensions and directions of accountability were linear and simple. But after privatisation it became complex and dispersed widening the actors to whom employees are accountable to.

Again, Cook and Kirkpatrick (1995) started that privatisation introduces better controls systems as compared to the public, because privatised enterprises are accountable to various independent bodies. They argue that most privatised enterprises have complaint unit where employees and customers can report wrong doings without being victimised. They also stated that privatisation injects new management style into the enterprise. This new management style produces efficient enterprise serving all, including customers, employees, industry and society. It also improves decision making, accountability and performance.

Wouter et al (2010) and Habermas (1996) also identified law as one of the mechanisms in ensuring accountability in an organization. While as Habermas (1996) argued that the laws mandate public organisations to publish their financial statements and open their books, for audit. Privatised enterprise even through stake holders may have rules and regulations which governed their activities. Publishing of financial statement and auditing may be done on the request of stake holders based on the organizational laws. Wouter et al (2010) also stated that laws regulate the behaviour of privatised (autonomous) employees and make them more accountable because of effective supervision which is normally absent in the public.

Hood (1995) points out that privatisation of public enterprise will enhance consumer sovereignty as compared to the providers of public services. This is because in the privatised enterprise, consumers are free to opt out if their needs are not met. So he argues that consumer sovereignty is better served in the privatised enterprise which makes them more accountable as compared to the public.

Ayres and Braithwaite (1992) and Hodge and Coghil (2007) identified accountability pyramid as a mechanism in privatised enterprises. At the top were regulatory enforcement, license revocation and suspension, criminal and civil penalties below this, followed by warning letters and informal influences from customers, peers, the media and other environmental standards. At the base were individual ethical procedures and social behaviours. With the regulatory institutions, the state retains the ultimate right to use its legislative powers to enforce accountability should other mechanisms fail.

Kettle (1993) also argues that privatisation has impacted negatively on accountability in terms of their transparency and public criticism of their administration. He argues that in Indianapolis, reporters investigating allegations of malfeasance complains sources in the private sector were unwilling to be quoted or even talk to the media. He also noted that open books and records, regular audits and other proofs of financial regularity are all essential elements of accountability. He further stated privatisation can makes it difficult to get complete access to the above.

Bishop, Kay and Mayer (1994) also argue that privatisation has made the behaviour and performance of privatized companies transparent. They said that, there was no accountability for performance in the public sector. After privatisation distinct enterprises have been created with clearly defined lines of responsibility. Bishop, Kay and Mayer believe that the very financial reporting requirement of newly privatised firms can promote accountability as compared to a show moving and impenetrable bureaucracy that may have existed previously.
Looking at the arguments above, privatization will supposedly produce accountability and efficiency without reducing quality. Privatisation, even though disdained by most Ghanaians because of its negative impact like redeployment of workers, its advantages outweigh the disadvantages, one of such advantages is accountability. Most of the empirical studies reviewed so far show that the structure of public enterprises changes as soon as they are privatised. Additionally, the mechanisms of public enterprises improved as enterprises are privatised.

The Property Right Theory by Alchian (1977), Demsetz (1988), according to the Property Rights Theory, shareholders are residual claimant to profit in public traded firms, whereas under state ownership, Property Rights are ill defined. Although the state is the residual claimant to any profits in a state-owned firm, the minister (as the state representative) has no financial interest in the returns stemming from his actions (or in actions). The theory also predicts that privatisation will enhance incentives tied to the firms, financial performance by replacing disinterested ministers with shareholders who will design an effective governance system out of self-interest.

METHOD

Participants

In this study the population consisted of members of managerial ranks and staff ranks of Intercity STC and GAFCO in Accra and Tema respectively. In all, 200 management and non-management employees were targeted for the study. Of the 200 employees targeted in both enterprises, only 77 filled and returned their questionnaires, 48 from Intercity STC and 29 from GAFCO. The response rate for the study was seventy per cent (70%).

Materials

The instruments used to obtain information were through interviews and survey. Eight interviews were conducted with top management from the two enterprises. The questionnaire and interviews contained questions on accountability mechanism and structures before and after privatisation.

Procedure

The data received from the interviews were transcribed and analysed using content analysis. The Statistical Package for the Social Science (SPSS) was used for analysing the questionnaire. This assisted in describing the data more succinctly and to make inferences about the characteristics of population on the basis of data from sample. The survey sought to generate additional information on the structure and mechanisms from managerial ranks and non-managerial ranks on the levels/structures, mechanism and actors/institution for accountability before and after privatisation in the case studies. Respondents were asked to tick before and after privatisation if staff in the various departments complies with the lines of authority by reporting to their immediate supervisors to ensure accountability.

RESULTS

Interviews

The results are based on the objective of the study. The specific questions posed to the interviewees in both case studies were to describe their organizational structure before privatisation and the changes that have occurred thereafter.

The managers in GAFCO added that even though privatisation has improved the linear structure to a more dispersed structure; this has not improved the reporting systems and the fortunes of the company. Unlike GAFCO, the managers interviewed in Intercity STC stated that privatisation has decentralised the traditional linear organizational structure. They claimed that it has resulted in an improved reporting system and supervision.

Whereas one interviewee in GAFCO said that before privatisation there were 4 departments and each department had 2 levels under it. Privatisation increased the departments to 6 with 25 levels. The eight interviewees indicated that there was not much emphasis on auditing before privatisation. But after it was privatised, the internal audit was introduced in both companies. This shows the importance placed on the work of the audit service.

Survey

In assessing the response of the respondents before privatisation, 25% strongly agreed with the statement whilst 35% strongly disagreed with it. After privatisation 32.5% strongly agreed and 1% strongly disagreed with the statement. This shows that privatisation brings about better defined lines of authority.

In response to a question asked if shareholders are consulted when taking decisions: 22% Strongly agreed, and 36 strongly disagreed with the statement before privatisation whilst 49% strongly agreed and then 7% strongly disagreed with the statement. This shows that consultation of shareholders is better achieved when organisations are privatised.

Under the organisational structure, the researcher enquired if dissatisfied customers are able to express their grievances through the suggestions box/ complain unit. 27% strongly agreed that before privatisation, customers were able to express their grievance through the complaint unit whilst 3% strongly disagreed with it. However after privatisation 42% strongly agreed customers expressed their grievance through the complaint unit while 1% strongly disagreed. About 39% did not comment on it at all. The number of respondents who strongly agreed that customers use the complaint unit to address their grievances in the privatised enterprises exceeded that of the public (before privatisation).

Again, respondents were asked if their organization operates within the laws of the state and are bound by this law; 42% strongly agreed that their organisation operated within the laws of the state before privatisation whilst 9% strongly disagrees with it.20% of respondents also strongly agreed that after privatisation, their organisation operated within the laws of the state whilst 22% of respondents disagreed with the statement. Comparing the percentages of respondents, it is observed that public enterprises operated within the laws of the state as compared to the private enterprises.

Furthermore, respondents were asked if their organizations were prepared to give information to the public/media and also open their books for audit. 53% of the respondents strongly agreed that their organisations were prepared to opening their books for audit and giving of information whilst 9% strongly disagreed with it before privatisation. Comparatively, 23% of respondents also strongly agreed whilst 39% strongly disagreed. This shows that when it comes to access to information and auditing, it is best observed under the public than the private.

Additionally, when respondents were asked whether their organisations can be sanctioned by regulators like Ghana Standard Board, DVLA, CHRAJ, National Road Safety Commission, Department of Factory Inspectorate and Economic and Organised Crime Office, majority of the respondents responded affirmatively before and after privatisation. Except in the case of the Economic and Organised Crime Office, 19% of respondents strongly agreed whilst 39% strongly disagreed with it after privatisation. This means that the Economic and Organised Crime Office does not have control over private entities. As discussed earlier in the interview, the other regulatory institutions had greater percentages even after privatisation indicating that they were still active in ensuring accountability even after privatisation.

Respondents were again asked if their organisations have procedures through which employee can report wrong doings without being victimized, 15% strongly agreed to the statement 66% disagreed before privatisation whilst 56% strongly agreed and 13% strongly disagreed with this statement. This shows that the private sector have procedures through which employees can report wrong doing without being victimized, as compared to the public sector.

Lastly, respondents were asked if their organisation was accountable to; parliament, cabinet, Auditor-General's department, owners, customers, suppliers and the public. It was realized that majority of the respondents responded positively before privatisation that they were accountable to parliament, cabinet and Auditor- General. Rating them 53%, 58% and 26% respectively, whilst after privatisation they were rated 6%, 8%and 2% respectively. However, when it came to the owners, customers, suppliers and the public, the respondents rated them low before privatization, which is 9%, 22%, 23% and 45%. Whilst after privatisation they were rated 58%, 62%, 51% and 45% (see appendix 3 for tables). This shows that before privatisation, government was in direct control of the public enterprises so the enterprises were accountable to government institutions such as parliament cabinet and the Auditor-General's Department. But after privatisation this trend changed and the enterprise operates as a private entity. They are therefore accountable to the owners, customers, suppliers and the public who are considered as shareholders. This presupposes that when it comes to accountability, the privatised enterprises are accountable to a number of institutions and people as compared to the public.

DISCUSSION

The findings from the interviews on the organizational structure for both case studies is similar to that of Luke (2008), Hodge and Coghil (2007). They compared the structure of State- Own Enterprises (SOE) before and after privatisation and concluded that SOEs have multiple (dispersed) and complex form of accountability as indicated in the case of Intercity STC and GAFCO. In each case, mechanism for accountability improved after privatisation.
Again, there was also an improvement in customer care. In Intercity STC, interviewees revealed that front line employees have been trained to relate well with customers. This means they see them as sovereign. This is similar to Hood (1995); he argued that consumer sovereignty is better served under privatised enterprise as compared to the public .

Furthermore, it was observed that publishing of financial statements and auditing was not a top priority of the two enterprises since none of the interviewees interviewed mentioned it except in the case of GAFCO where it was published in their newsletter. This is consistent with Habermas (1996) who stated that publishing of financial statements and auditing may be done on the request of the stake holders.

Another observation that was made was the consistent mentioning of regulatory institutions as a mechanism of ensuring accountability in both case studies. In both case studies, we saw licence revocation, licence suspension, warning letters and persuasions, and closure of factories by regulatory institutions to ensure compliance. These are consistent with Ayres and Braithwaite (1992) studies on regulatory enforcement.

Again the findings from the research survey are not substantially different from the literature. Despite some few differences, most of the issues raised are very much similar to those found in the literature. According to (Luke 2008; Wouters 2010; Hodge and Coghil 2007) privatisation brings about clearly defined reporting lines and improved supervision. The responses from the respondents on the question on reporting systems showed that when organizations are privatised, there are clearly defined lines of authority and reporting systems as well as improved supervision as indicated in the literature.

Lastly under the structure of accountability, the respondents revealed that consumers are able to seek redress to their problems in privatised enterprises through the use of Complaint Unit as compared to the public. This is similar to Cook and Kirkpatrick (1995) studies. They also argued that privatised enterprises have Complain Unit where employees and customers can report wrong doings or problems. However in Mo (2000) he revealed that the complaint unit and suggestions box used by the public to address their problems are not adhered to in the private enterprise as compared to the public.

Also, all the mechanisms of accountability identified by respondents during the research process had been noted in other literature on the issue of privatised enterprises operating within the laws of the state. The study showed that whilst before privatisation the enterprises operated according to the laws of the land, after privatisation the enterprises operated according to the rules and regulations of the enterprise instead of the laws of the state. This confirms Habermas (1996) claims that privatised enterprises are normally bound by organizational rules and regulations rather than the state laws. He argued that the state laws cannot obligate private enterprises to publish their financial statements. He reiterated that it can only be done on the request of shareholders. He said that the state (government) can only enforce compliance to state laws only if it is the majority shareholder in the privatised enterprises.

From the findings of the interviews and questionnaires, it can be established that the theory chosen for the study is very much in line with the study; The Property Right Theory by Alchian (1977), Demsetz (1988). As stated earlier, according to the Property Rights Theory, shareholders are residual claimant to profit in public traded firms, whereas under state ownership, Property Rights are ill defined. Although the state is the residual claimant to any profits in a state-owned firm, the minister (as the state representative) has no financial interest in the returns stemming from his actions (or in actions). The theory also predicts that privatisation will enhance incentives tied to the firms, financial performance by replacing disinterested ministers with shareholders who will design an effective governance system out of self-interest. The findings show that because shareholders know they have an interest in the company, the number of mechanisms has been increased to ensure accountability which will be translated into high production and increase the profit of shareholders. Again, after privatisation the disinterested ministers heading the various State-Owned Enterprises were replaced with the shareholders. This shows that the theory is in line with the study.

CONCLUSION

It has extensively been acknowledged in the literature that privatisation brings about improved accountability and performance (Hodge and Coghil 2007; Luke 2008, Wouters et al 2010). As a result of this, most ailing State Own Enterprises were privatised to improve on their accountability leading to improved performance. The study of these two privatised enterprises, that is Intercity STC and GAFCO have revealed privatisation indeed leads to improved accountability but not performance.

Results from the study showed that the organizational structures of the two enterprises which were formerly linear became dispersed after privatisation. Evidence from the study also shows that accountability mechanisms improved after privatisation. There is a need for further research on challenges of privatised enterprises. These studies should also come up with reasons why privatised enterprises are collapsing despite improved accountability mechanisms. Also, there is a need for further research on GAFCO and Intercity STC to find out why they are not performing even after privatisation.

RECOMMENDATIONS

The interviewees made the following recommendations based on their experiences with the privatisation of the two companies that;

Government should set up another Commission which will monitor the activities of the shareholders of privatised enterprises just as we have the Divestiture Implementation Commission (DIC) which supervises the sale of SOEs. This new Commission should also be charged to monitor expatriate who buy privatised SOEs so that they do not repatriate all their profit but reinvest some percentage in these enterprises to prevent them from folding up as a result of financial suffocation hence their inability to buy raw materials and equipment.

Furthermore, government should ensure that regulatory institutions are endowed so that they can perform their regulatory roles better since if all the accountability mechanism fails, it is with the regulatory institutions that can hold privatised enterprises accountable through supervision or revocation of license to operate.

Also, it is not good enough having a lot of mechanisms in place. But ensuring that the mechanisms are effectively obeyed, management and stake holders of privatised enterprises should therefore ensure that these improved mechanisms that privatisation brings are effectively implemented.

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