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Crown Corporations in a Successful Economy

BRETT FAIRBAIRN

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Balancing Act: Crown Corporations in a Successful Economy

BRETT FAIRBAIRN

In May 1996 Henry Mintzberg published an article in the *Harvard Business Review*, in which he argues that, despite the fall of Communism in eastern Europe, capitalism has not triumphed. According to Mintzberg, “we have confounded the whole relationship between business and government.”¹

Capitalism did not triumph at all; balance did. We in the West have been living in balanced societies with strong private sectors, strong public sectors, and great strength in the sectors in between. The countries under communism were totally out of balance. In those countries, the state controlled an enormous proportion of all organized activity. There was little or no countervailing force.

Mintzberg’s worry is that “the belief that capitalism has triumphed is now throwing the societies of the West out of balance.” I agree with Mintzberg that we need to be more cognizant of the contributions of different kinds of organizations, different forms of ownership and control, to the diversity and strength of modern economies.

Forms of Ownership and Control

Mintzberg goes on to outline a schema of not two alternative forms of ownership (private or public) but *four*, all of which are present in strong western economies. He arranges these four alternatives not along a straight line but along a horseshoe whose two ends almost touch:

- First, there are *privately owned* organizations, whether held closely by a few individuals or widely by many shareholders.

¹ Henry Mintzberg, “Managing Government—Governing Management,” *Harvard Business Review* May-June 1996, pp. 75–83; here, p. 75, and the same for the following quotations. An edited version of this article appeared as “The Myth of ‘Society Inc.’” in *Report on Business* Magazine October 1996, pp. 113–17.

- Second, there are *co-operatively owned* organizations controlled by suppliers, customers, or employees.
- Third are what Mintzberg calls *non-owned* organizations, essentially not-for-profits, often referred to as NGOs. These include universities, hospitals, charities, and voluntary associations.
- Finally there is public, or what Mintzberg more properly says is *state*, ownership.

All these types of organizations work together to make an economy successful. Each one makes a distinctive contribution and performs functions the others might not perform as well, or indeed, at all. The engine of the economy is driven by four cylinders pumping in a co-ordinated way.

It is clear that this view of an economy balanced between different sectors and different forms of ownership is a basis for argument against systematic or ideologically driven privatization, systematic nationalization, or indeed any one-sided approach. It is also an argument in favour of a pragmatic view of four forms of ownership, each of which can learn from the others—and each of which should understand itself as a distinct form within a spectrum (or horseshoe) of possibilities.

Mintzberg's point about the horseshoe arrangement is that the two ends, private ownership and state ownership, are close together in important respects. "Both private and state organizations are tightly and directly controlled through hierarchies—one emanating from the owners, the other from state authorities." Because of this,

...the leap between state and private ownership can be made more easily than a shift to non-ownership or co-operative ownership.... That may be why so much of our attention has focussed on nationalization versus privatization. The leap is so simple: Just buy out the other side, change the directors, and keep going; the internal system remains intact.

I would add that it is not only easiest to make the leap between state and private enterprise; in some ways, it is also easy for management strategies and philosophies to be transferred across the public-private divide. This is particularly true for the narrow divide between private and crown corporations. The "tightly and directly controlled hierarchies" of government lend themselves to the adoption of certain private-sector management and evaluation models.

I see signs that Mintzberg's observations about the closeness and easy interchangeability of state and private ownership are directly relevant to the debate in Saskatchewan. Because of a possibly growing interchangeability of different forms of enterprise, the diversity of our economy—and hence its long-term strength and resilience—may be declining.

Balance and Diversity in Saskatchewan

If we accept Mintzberg's view of a balanced economy, a systematic or ideologically driven privatization is presumably to be avoided as contrary to balance and diversity. There may of course be particular cases where an enterprise may be converted from one form of ownership to another, but, across the economy as a whole, the public's interest is to have four strong, different sectors. Individual enterprises may change form, but the basic structure of the economy should not tilt too far or too quickly in any particular direction. This includes, according to many people, a continuing role for strong public enterprises.

But privatization is only one way in which the balancing contribution of public enterprise may be lost. Just as the function of public enterprise is lost when it ceases to be public (when it is privatized, that is), the function of public enterprise is also lost when it ceases to *behave* like public enterprise—when it adopts so many of the characteristics of private enterprise as to be functionally indistinguishable. It seems to me there is some danger of this in Saskatchewan. While we have had some debate on privatization, for example, which could contribute to informed decisions in this regard, there seems to have been little conclusive debate about what the distinct roles and purposes of public ownership really are.

Reviewing the recent reports of “Talking About Saskatchewan Crowns” and of the “Saskatchewan Crown Corporations Review,”² I sense some momentum behind the idea that crown corporations, while remaining publicly owned, should become more competitive, more internationally aggressive—behave, in short, more like privately owned organizations. If untempered by

² “Talking About Saskatchewan Crowns” (TASC), A Report on the Public Review of the Future of Crown Corporations in Saskatchewan, September 1996; Crown Investments Corporation of Saskatchewan, “Saskatchewan Crown Corporations Review 1996”.

other missions and visions, this corporatist momentum could lead to a loss of the diversity and balance recommended by Mintzberg. Crown corporations may continue to exist, but competitive pressures and management philosophies may lead them to play no *distinct* and therefore no *balancing* role in the economy and in society.

The privatization road and the corporatist road seem to me to lead to similar destinations.

Some will say that there is nothing wrong in a public enterprise behaving just like a private enterprise, as long as the profits go to the state. In this view, the distinguishing role of crown corporations is their cash contribution to the provincial treasury. Without disputing that this may be an important role for crown corporations, I would like to take issue with the idea that this role alone can justify public enterprise in general. There has to be more to public enterprise than generating profits for the corporate owners. In the long run, the public will grow suspicious of crown corporations—especially utility crowns—whose only purpose is to generate profits from consumers for the state. People will perceive, rightly or wrongly, that this is only another form of taxation, and they will resent its pseudocommercial character. They may legitimately question, in such a case, why the state does not simply raise the same amount of money cleanly and above board, through taxation.

I take it as self-evident that generation of revenue, while useful, is neither a necessary nor a sufficient justification for the state generally to engage in public enterprise. There must be something more.

Others argue that a public enterprise may behave just like a private one, but as long as its head office remains in Saskatchewan, we have achieved a distinctive benefit from public ownership. Again, there is an element of truth in this: the 1996 crown corporation review quantified the importance of crown-corporation head offices, estimating that five head offices accounted directly and indirectly for 6,350 jobs in Saskatchewan and \$849 million in gross domestic product.³ This sounds impressive, but again, one has to doubt whether this *by itself* justifies the engagement of the state's resources. If the goal is only job creation, are we certain that investment of these resources, in this way, is the *best possible* use of the resources concerned? SaskTel's head office,

³ CIC, "Saskatchewan Crown Corporations Review," 57.

for example, is held to be directly and indirectly responsible for 2,000 jobs; but the province's total equity in SaskTel is \$556 million.⁴ If we had a fund of half a billion dollars with which to create jobs, are we sure we would use it to staff a head office in Regina, ahead of all other possible uses? This amounts to \$278,000 per job.

On balance, head-office job-creation is also not a sufficient mission for crown enterprise— necessary, possibly, as part of the basic mandate of public ownership, but not sufficient.

In the end, the head-office issue is important not only because of the job-creation issue, but because a head office is a symbol of *control*. To discuss head-office location as an issue is to beg the question of what we wish to *use* Saskatchewan control to *achieve*.

This question—what the necessary and sufficient purposes of crown corporations may be—is directly related to the question of why the public, the citizens and taxpayers of Saskatchewan, should invest in them and support them. Why *should* the public uphold each crown corporation? This is surely the central issue in the entire debate, and it reduces in part to the question of the social roles and purposes of crown corporations.

The Role of Crown Corporations

The history of the crowns shows that public support has been based, first of all, on great common projects that touched the average citizen. The greatest of these was surely the electrification of rural Saskatchewan, which was a defining project for a generation of provincial leaders. The development of the telephone network, and its modernization in the 1970s through the addition of a fibre-optic network, were similar large-scale, service-oriented, technological undertakings. One could say that public enterprise justified itself in the first instance through “technological crusades.”

These collective economic projects shared a number of features. They were largely about geographical access. They touched many or most citizens. And they involved a certain uniformity of approach across the province, which led the public to accept the appropriateness of large central corporations as vehicles for these economic activities.

⁴ CIC, “Saskatchewan Crown Corporations Review,” 57 and 78 (Appendix B).

A second widely supported role concerns cross-subsidization. People seem to understand and support the practice of subsidizing residential telephone use, providing excellent utility service to sparsely populated districts, and so on. It appeals to some sense of equity that geographic and social access should be equalized in this way, and it seems to have been accepted that this should be done within a crown corporation rather than, for example, through targeted grants out of the general government budget.

But like many others, I have questions about these historic social purposes and social contracts. First, where are today's great common projects? There is no perceptible 1990s equivalent, in the popular imagination, of rural electrification or even the fibre-optic wiring of the province. Second, how can cross-subsidization continue in an environment of deregulation, competitiveness, and application of business standards to public services? We seem already to have accepted (referring again to the 1996 Saskatchewan Crown Corporations Review) that this deregulation is a given, yet there has been little debate about what this may mean in terms of public acceptance of crown corporations. When people see their rates rising and historic cross-subsidizations ending, why will they continue to support a public utility? This raises the last and most important question: Why will people continue to value crown corporations in a future in which crowns cannot or do not fulfill the roles they used to?

The answer would seem to be that each crown corporation must articulate a new, *distinct* mandate and pursue it with vision. This means rethinking the role of public enterprise in general, and of each crown corporation in particular, in the social and economic development of Saskatchewan.

In many ways, the perceived malaise of public enterprise has nothing to do with its public ownership or operation. It has to do, instead, with the decline of the great, common, collective, province-wide projects and social policies that were the traditional purpose towards which we used these instruments. Instead of microanalysing the tools, we should be defining the purposes, and shaping the tools to fit those purposes.

There are many such purposes one could discuss, though the key, of course, is to select those around which a consensus can be built. But there are many ideas. The other day, for example, when I was having my hair cut, I asked my barber about the purpose of crown corporations. (As my hair stylist also happens to be my spouse, you can well imagine that her opinion

counts double!) She paused for a moment, looked out the window, and said, “people want the government [and here she meant crown corporations] to be more responsible than they are themselves” as citizens. I thought about that, and it makes sense: People want some reassurance, some security and stability, from institutions that watch out for the long-term good and make responsible decisions. That may be a good, short description of the purpose of much state action and of the existence of crown corporations in particular, but my wife had a specific role in mind: protection of the environment. What is the purpose of public enterprise, after all, if it is not in part to safeguard, in a special way, public goods like clean air, clean water, and a clean environment?

As I say, there are many possible social purposes for crown corporations. What is striking is how little they have been discussed, in an open and explicit way, in recent years.

Wider changes in society are contributing to the urgency to define new and sufficient purposes for crown corporations. Today, growing numbers of citizens view centralized organizations as remote, unresponsive, and not urgently relevant to their individual needs. People are less and less attached to governments, crown corporations, universities, banks, large co-operatives, and so on. They increasingly view their interactions with such centralized institutions as passing matters of convenience. When inconvenienced or annoyed, they are less and less reluctant to voice their criticism. There is a loss of faith in institutions, as researchers of public attitudes have concluded.

This is not just a more demanding citizenry, but also one with shifting concerns. The things people care about are generally localized and community-specific or lifestyle-specific questions, among which matters such as security of health and employment seem to top the list. People no longer have confidence that the things about which they are most concerned can effectively be addressed by centralized organizations.

There are logical responses to all this. All organizations face the options of either *becoming* smaller and more community-oriented, closer to the citizen; or *appearing* to do so: two possible adaptations to popular expectations. Banks cultivate the appearance of popularity through folksy television commercials. Co-operatives strengthen their community support to the extent that they maintain or revitalize their existing, decentralized membership structures. Universities...well, we haven't figured that one out yet. And what

is the technique for crown corporations to reconnect to community?

Crown corporations need to reconnect to the concerns of ordinary citizens. One possibility would be to convince citizens to become concerned about a new economic crusade: a 1990s equivalent of rural electrification. At the moment there is no such prospect on the horizon. A more likely solution is for crowns to formulate their goals in light of what citizens are already concerned about. In doing so, crown corporations need to rethink their role in social and economic development, and understand themselves as a distinct form of ownership with a distinct mission: a *raison d'être*. In defining and articulating this mission, they can learn from the other forms of ownership that are out there, and not only from the private sector.

Learning from Co-operative and Non-Owned Organizations

Mintzberg argues that both business and government can learn not only from each other, but also from co-operative and non-owned organizations, which they have tended to ignore in the past. “We can benefit greatly from the experiences of both—as soon as we get beyond our narrow prejudices.”⁵

When an international management authority like Mintzberg says we should learn from co-operatives and NGOs, people in Saskatchewan ought to sit up and take notice. We know something in this province about these kinds of organizations. We have our own knowledge and expertise. So what is it that co-operatives, for example, have to teach to crown corporations and government?

Mintzberg observes that “co-operatives have sophisticated ways of dealing with dispersed constituencies, as well as with special kinds of customers.” Co-operatives represent a different quality of connection between an enterprise and selected groups of constituencies or stakeholders. The nature of who is represented in a co-operative, how the board is put together, how the members are involved, and where they are accommodated in the organization, changes the behaviour of the organization and the attitude of members towards it.

Some will object that co-operatives have their own problems, and there-

⁵ Mintzberg, “Managing Government,” 83.

fore have nothing to teach anyone else. I am reminded of a story told by a friend of mine who is an economic development official in Newfoundland. It seems that there were two crates of lobsters sitting on a dock, one with a lid on top and one without. A passer-by asked why the crates were different. “Well,” said the fisherman, “the lobsters in the one crate, they’re PEI lobsters. If there was no lid, those ones would get out. But the other crate—those are Newfoundland lobsters. If one of them tries to get out, the others will pull him back down again.” I think Saskatchewan people may be rather like Newfoundlanders in this respect: If something of ours succeeds, we want immediately to drag it down. This has an unquestionable good side: Saskatchewan people have very high standards. When we create ostensibly democratic organizations, we hold them to the highest possible standards of democratic performance, and are satisfied with nothing less. But there are times to be critical, and other times to acknowledge our successes and learn from them.

It is true that large, long-established co-operatives, like all large organizations, are subject to challenge and question. That does not mean there is nothing to learn from them, as Mintzberg points out.

I would argue that there are two things for crown corporations to learn from co-operatives. The first concerns governance, a key issue raised in the “Talking About Saskatchewan Crowns” public consultations. The second concerns the need for crowns to have a defined social mission and a community orientation.

First, co-operatives demonstrate that nonexpert boards of directors can be effective. Lay boards representing consumers, communities, and employees can effectively provide general guidance to an enterprise, whether the enterprise is large or small, and can work in constructive partnership with senior managers—provided two main conditions are met. First, roles must be clearly defined. Board members must know whom they represent and why they are at the table, and must understand their collective role in relation to senior managers. Second, board members must have constant education in their roles and duties, and be supported in this way to articulate general guiding principles for the organization. I would like to stress that this approach—boards democratically representing stakeholder interests and working in close partnership with senior management—has worked time and time again for enterprises ranging from two thousand to two billion dollars of annual sales volume.

As for the second area in which co-operative experience may be instructive for crown corporations, I would illustrate it with a story from south of the border.

In the midwestern United States, rural utility co-operatives—such as once existed in significant numbers in Saskatchewan—were never replaced by state-owned enterprises. Rural electricity and telephone co-operatives remained community-based, locally or regionally controlled, and co-operatively owned. They have federated together to achieve economies of scale, and have financed large-scale developments over the years. But compared with conventional, centralized crown corporations, they tend to see a different relationship between their own success as co-operatives and the social and economic health of the communities they serve.

The US rural utility co-operatives have become active in community economic development. Electricity co-operatives have spearheaded the development of what are called “new-generation” agricultural processing co-operatives, of which more than fifty have been created in the last five years, representing a combined new investment of over one billion dollars US in the rural economies of, mainly, North Dakota and Minnesota. The commitment of the utility co-operatives to community economic development was expressed, for example, in the dedication of a staff position to work on the development of the new enterprises.

It is important to observe that these co-operatives did not tackle the mission of rural economic development alone, but rather as part of a team on which they played a leading and facilitating role. It is quite possible for organizations to play a role as leaders in areas in which they do not have an exclusive mandate. Under certain circumstances—when their resources and their conception of their mission match community needs—it may be their responsibility to do so.

Why have rurally based electric co-operatives invested resources in job-creation activities largely unrelated to the business of generating and distributing electricity? The answer is, they recognize that in the long term their viability as enterprises depends on the health of the communities they serve. Rural depopulation and job loss is a threat to their customer and membership base. If they do not invest in community development, their own business will suffer. The membership base—the organized representation of consumer interests—gives the US rural electric co-operatives a framework within which

to make responsible decisions about long-term community interests. As a result, they are oriented towards community—towards social-policy goals that *directly* touch people and link corporate success to the well-being of citizens.

There are several possible lessons here for Saskatchewan crown corporations. One is that adopting a long-term view and an orientation towards community may mean conceiving of the corporation's business in new ways, as in seeing the connection among rural depopulation, creation of new enterprises, and delivery of electricity. A crown corporation might become "smaller" and closer to its public by adopting such approaches, even without changing its structure. But another lesson may be that structure matters. Centralization in a unitary organization, under the conventional governance structure, may not always be conducive to the role that crown corporations ought to play in a balanced economy.

"Community" Orientation: Structure, Governance, and Strategy

I am not certain what the precise future shape of crown corporations may be, but it seems apparent that they will not make a distinctive contribution to the provincial economy and society, nor will they retain broad-based public support, unless they stand for a mission larger than themselves. The key is a mandate that puts crown corporations in some clear and visible sense at the service of people and communities. My own suggestions are that crown corporations rethink their connection to communities, view themselves as actors in and facilitators of community economic development, and consider innovative structures and strategies that are suited to these ends.

Learning from co-operatives and mixed forms of enterprise, there are three general areas in which innovative alternatives might be considered.

First, there is the question of *ownership structure*. While there should be a continuing role for public enterprise as a sector, it may be that, in particular cases, transformation of ownership will be considered. There are those who talk about transforming the ownership structure of crown corporations: But why is it assumed that transformation can only be to the one form of *private* ownership? Just as some would consider converting crowns to private enterprises, one could consider wholly or partially converting them to co-

operative or non-owned organizations. And why is it assumed that the transformation must be all-or-nothing, one hundred percent state or one hundred percent private?

Mixed and complex organizations may be particularly suitable to the multiple objectives and multiple stakeholders associated with public enterprise. There could be shared control, with the state retaining part ownership and voice alongside representatives of other stakeholder-owners. Or some parts of what is now a crown could be owned in one way, while others could be owned in a different way—with the whole remaining economically interlinked. One model for this would be a central corporation with a board representing several ownership groups, overseeing subsidiaries that might have a variety of forms of ownership: wholly owned, joint ventures, share companies, and so on. Such complex organizations do exist and function effectively.⁶

Such alternatives cannot be defined *a priori*. They must be developed by working forward from the mission of the enterprise or group, and the needs and interests of its stakeholders. The important point, however, is not to assume that continued one-hundred-percent state ownership or outright one-hundred-percent privatization are the only options.

Second, with or without changes to ownership, *governance models* could be revised to provide for more direct community representation. Boards of particular crown corporations might include appropriate mixes of individuals who represent citizens at large, small consumers, large consumers, employees, communities served, and other stakeholder groups directly concerned by the activities of the crown corporation in question. The government could continue to exert influence through appointment of a minority of directors, and through legislatively or contractually defined mandates and obligations.

“Representation” on crown corporation boards suggests an externally driven appointment or election process for nongovernmental representatives. This would clearly differ from the current government appointment process, about which concerns were raised during the public TASC hearings. Removing the appointment of directors from direct government control, at least for some crown corporations or for portions of some boards, would be a way to

⁶ For example, the Desjardins Group in Québec. One side of the organization is co-operatively owned by local caisses populaires who join in regional federations and elect a central board. The central board also directs another side of the group organization that consists of non-co-operatively owned subsidiaries and joint ventures.

reduce the perceived remoteness of crowns from the public. It would be one way (preferably to be combined with and supported by other measures) to reconnect crown corporations to communities. It would also help clarify and reinforce the role and independence of boards of directors, which according to the 1996 review of crown corporations “tend to operate more as advisory bodies.”⁷

A multistakeholder board with clear mandate and powers, and a source of legitimacy rooted in Saskatchewan communities, is a clear alternative to the present appointment process that the public sees as too political and that consultants regard as often ineffective.

Third, with or without changes to ownership and governance, crown corporations could adopt more *community-oriented visions*, management structures, strategic plans, and management styles—like the US rural electric co-operatives, for example. Ideally this should go beyond mere promotion or “image.”

There are two important substantive points to consider. First is to make a genuine corporate commitment at all levels of the organization. This could begin with strategic planning, involvement of stakeholders and articulation of their interests, and formulation of a mission statement explicitly incorporating social or community goals and defining their relationship to economic goals. The ultimate purpose would be to change the organizational culture to one that is oriented towards community service and community development. Second, if such commitments are made, resources must be dedicated to making them into realities. The most important resources of large enterprises such as crown corporations are their human resources.

One device for encouraging and registering performance in this regard would be to institute a mandatory social-audit review procedure for crown corporations. A social audit provides an organized way to address the critical question of measurable performance indicators for the not-strictly-economic missions of crown corporations. In a social audit, an enterprise or its units analyse their total impact on their communities. This might begin, for example, with measures such as jobs directly created or maintained. It likely also would include estimates of spinoff benefits, and analysis of corporate strategies or interventions that are designed to improve the condition of stakeholder or

⁷ CIC, “Saskatchewan Crown Corporations Review,” 62.

community groups, or of the natural environment. Ideally, a social audit involves the active participation of the affected stakeholder groups. It becomes both a tool for planning and analysis, and a communications mechanism for conveying the corporation's accomplishments to its publics and receiving their feedback.

We can and should debate the merits or difficulties of any alternative strategy or structure for crown corporations. There should be many ideas and proposals for crown corporations, among which there should be many suggestions for how they can orient themselves towards their communities and develop closer relationships to the publics they serve.

In the end, crown corporations will succeed in their distinctive mandate or fail, will retain the support of Saskatchewan people or lose it, not according to whether they are state owned or privately owned—but rather, according to whether they serve their publics and their communities. Only that will justify their existence and generate lasting public support in a changed world.

To privatize or not: That isn't the question. The important questions in the case of each corporation are: *If* public ownership is maintained, *what kind* of public enterprise will it be—in service of what missions? In connection to which stakeholders? And *if* a conversion of ownership is to be considered, *what kind* of conversion will it be: only to a private form? To a cooperative or non-owned form? To a mixed or complex organization?

There is a basis for a made-in-Saskatchewan solution to the global problems facing public enterprise. It involves seeking a community orientation, from the bottom to the top of the organization, and rethinking questions of ownership, governance, and management strategy. Saskatchewan can lead the way, and it can do so by paying attention to balance, by defining distinct and compelling missions, and by being creative and learning from what we do well.