

Multinational Enterprises  
Programme

---

Working Paper No. 34

# **Public multinational enterprises and strategic decision-making**

by Lucien Rapp  
Institute of International Affairs  
and Developing Countries  
Toulouse (France)

Note:  
Working papers on themes studied within the ILO  
are intended to stimulate discussion and  
critical comment.

---

International Labour Office Geneva

Copyright © International Labour Organisation 1986

Publications of the International Labour Office enjoy copyright under Protocol 2 of the Universal Copyright Convention. Nevertheless, short excerpts from them may be reproduced without authorisation, on condition that the source is indicated. For rights of reproduction or translation, application should be made to the Publications Branch (Rights and Permissions), International Labour Office, CH-1211 Geneva 22, Switzerland. The International Labour Office welcomes such applications.

---

ISBN 92-2-103946-3

*First published 1986*

---

The designations employed in ILO publications, which are in conformity with United Nations practice, and the presentation of material therein do not imply the expression of any opinion whatsoever on the part of the International Labour Office concerning the legal status of any country, area or territory or of its authorities, or concerning the delimitation of its frontiers. The responsibility for opinions expressed in signed articles, studies and other contributions rests solely with their authors, and publication does not constitute an endorsement by the International Labour Office of the opinions expressed in them. Reference to names of firms and commercial products and processes does not imply their endorsement by the International Labour Office, and any failure to mention a particular firm, commercial product or process is not a sign of disapproval.

ILO publications can be obtained through major booksellers or ILO local offices in many countries, or direct from ILO Publications, International Labour Office, CH-1211 Geneva 22, Switzerland. A catalogue or list of new publications will be sent free of charge from the above address.

---

Printed by the International Labour Office, Geneva, Switzerland

## SUMMARY

The purpose of this report is to analyse the strategic decision-making process within public multinational companies on the basis of examples selected from among public enterprises in industrialised or developing French-speaking countries.

It comprises five chapters.

The introductory chapter describes the original characteristics of public multinational enterprises, more commonly called "public multinationals".

The next three chapters are devoted to an analysis of each of the three levels of public multinational strategic decision-making, viz.:

- within the public parent company;
- within the public multinational groups formed by such parent companies and their subsidiaries;
- and finally within the first and second generation subsidiaries themselves, subject to foreign law.

The final chapter concludes by offering as food for thought a description of a typical strategic decision-making process for public multinational enterprises.



## 1 - INTRODUCTION: THE PUBLIC MULTINATIONALS

Ever since 1980, the attention of the international community - organisations, States, trading partners, employers and workers alike - seems to have been focussing ever more on the development of a new category of multinational enterprise, known as the public multinational.

In the main, these are the public enterprises of industrialised or developing countries established abroad - as often as not in the form of subsidiaries or associate companies subject to local law - the structures or management methods of which are similar to those of private multinational enterprises.

The interest aroused by such entities would seem justified for three consecutive but related sets of reasons:

- because they represent a new and as yet unknown quantity;
- because of the considerable importance that they have assumed, especially for international trade and development;
- because of the legal peculiarities of their strategic decision-making process which necessarily implies state intervention and which thus distinguishes them from the private multinational enterprises.

### 1.1 The phenomenon of public multinationals

The appearance of public multinational enterprises is a wholly new phenomenon which is why there has been talk of a "mutation" of multinational enterprises since the decline of the "American challenge" at the end of the 1960s.

As Ghertman<sup>2</sup> has pointed out, it does in fact go to show that the form of economic organisation known as the multinational is not the prerogative of capitalism or of private industry alone and that the distinction between the private and public sectors does not exclude the multinationalisation of the latter.

#### 1.1.1 The internationalisation of public national enterprises

Actually, this phenomenon of the public multinationals originated in the progressive internationalisation of a large number of national public enterprises, which started during the 1960s. It is, of course, true that even prior thereto, some if not all public enterprises had secured a foothold abroad in the form of agencies, offices or even subsidiaries under local law. But, starting from 1960, the number of such footholds abroad - in the form of subsidiaries subject to local law - started to increase in a national and international context which was particularly conducive to their development. Within the national context, there was - starting in 1960 - a very noticeable acceleration in the takeover of public enterprises in most European countries.<sup>3</sup> At the international level, a policy of open borders was being adopted as bore witness to the creation of the European Common Market in 1957, the rush of US enterprises "setting up shop" in Europe and all the newly independent countries offering considerable scope for foreign investors.<sup>4</sup>

The resulting internationalisation of public enterprises has assumed vast proportions as in certain cases - such as the automobile industry, for example - the number of foreign subsidiaries increased tenfold in 20 years (between 1960 and 1980).

Obviously, the causes vary widely from one public enterprise to another depending on the sector of activity involved and the country in which an enterprise has its head office. But, broadly, they may be placed in one of three categories.<sup>5</sup>

(a) The first comprises those public enterprises concerned with raw materials (and mining products). In their case, the adoption of an international strategy was dictated by the nature of their products. Countries whose subsoil was devoid of - or at least poor in - mineral products - as is the case of Western Europe or even India - needed to seek such products abroad and, in order to do this, they "set up shop" at the pithead, so to speak, as often as not in the form of joint ventures incorporated under local law. Conversely, countries endowed with such mineral wealth were compelled to set up marketing enterprises abroad or processing enterprises at home. In this light, it becomes clear why enterprises of this type had to be internationalised, whether they were public or not.

The importance that they have now assumed is confirmed by the UN classification prepared in 1978<sup>6</sup>. This world-wide classification of multinational enterprises (Transnational corporations) according to consolidated turnover, clearly shows ten to 12 public multinational enterprises (depending on the criterion chosen), from either industrialised or Third World countries, nearly all of which belong to the mining and petroleum industries.

(b) The second category of multinational enterprise, embracing such sectors as the automobile, aeronautics construction or electronics industries, internationalised for considerations of an industrial or trade strategy nature.

Such considerations are in themselves very varied. Where the aim was to gain access to a domestic or regional market protected by customs barriers or to take advantage of an abundant source of cheap skilled labour, the considerations were of an economic nature. They were legal where the aim was to better penetrate a foreign market by adopting the legal guise of the target country. Financial and fiscal considerations prompted such internationalisation where the purpose was to take advantage of a free export zone or a national investment plan such as that existing within the UDEAC (Central African Economic and Customs Union) or the Community of East African States - before it was disbanded.

Indeed, all of these considerations are, to a greater or lesser extent, to be found in the internationalisation policy of any public group such as, by way of example, that of the French Renault Group the highlights of whose strategy over the past 25 years have been characterised particularly by the takeover of the American Motors group in the USA, the development of the Group in Mexico and in Canada and its many interests in Latin America, Spain and around the Mediterranean and the consolidation of its former position in Africa.

Even though there appears to be some analogy between the internationalisation motives of a public multinational enterprise such as Renault and those of comparable private enterprises - US transnational corporations, for example - there are grounds for questioning the extent to which the strategies of public multinational enterprises might not be influenced by the public nature of the parent companies and especially by the advantages that they derive from their size - often bigger than private multinational enterprises, from subsidies and the other tax privileges which they enjoy or from access facilities to capital markets.

(c) The third, final and by far the largest category of public multinational enterprises adopt an internationalisation strategy for political reasons because, before becoming a multinational, the public multinational enterprise was - and remains to a very great extent - an entity controlled by the State which also uses it as a political instrument. It is an instrument of domestic policy when the internationalisation of a public enterprise is justified by the desire to acquire for the country the capital or the foreign exchange that it needs and that it cannot obtain by any other means (this being the case with the Mexican public enterprise, Pemex); or if the aim is to encourage domestic manufacturers to export (an example of this being the Brazilian enterprise, Petrobras, which, at the instigation of the Brazilian Government founded a company called Interbras, specialised in international trade); or again, if the purpose is simply to export some form of national know-how via consultancy or engineering firms (as is the case with a very large number of French public enterprises in such non-competitive sectors as EDF (the French electricity corporation), the RATP (Parisian public transport corporation) or the SNCF (French national railways)).

- But it can also be an instrument of foreign policy when the internationalisation of a public enterprise is the expression of a bilateral policy for the assistance or support of a foreign country. We might, by way of example, mention the establishment by the Brazilian enterprise, Interbras, in Nigeria as part of a policy by Brazil to support Nigeria.

And then, more recently, there are those Third World<sup>8</sup> multinationals, much of whose capital in many cases - as, for example, that of the Indian enterprise, Birla - is drawn from public sources. They set up plants in other Third World countries - especially in Africa and south-east Asia where they operate small-scale production units availing themselves of local resources and particularly the abundant labour supply, to manufacture goods adapted to the needs of the local communities.

In each of these cases, the State has - directly or indirectly - encouraged the internationalisation of its domestic public enterprises. The resulting public multinational enterprises are also clearly distinguishable from their private counterparts.

This list of motives - which is certainly not exhaustive - clearly shows the extent to which public enterprises have gone international. The movement concerns industrialised and developing countries alike and makes no distinction between the political doctrines of those in power. It involves all the sectors in which public enterprises operate - primary, secondary and even tertiary - with the broad banking sector very much in evidence. Indeed, all public enterprises are involved, whether of a competitive nature or monopolies such as public services and public transport in particular. The fact that a public enterprise goes international does not necessarily confer upon it all of the characteristics mentioned in the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy. (i.e. if it only has sales abroad).

(a) In the case of certain public enterprises, multinationalisation is limited to the turnover realised abroad. Salzgitter (Federal Republic of Germany), West-Alpine (Austria) and La Snias (France) realise half of their turnover abroad which means that their administration, strategic decisions and development strategy must, of necessity, be influenced by considerations of an international nature.

(b) For other public enterprises, the multinational effect is expressed by the diversity and multiplicity of their foreign establishments which, as often as not, take the form of subsidiaries subject to local law. According to this criterion, a public group may be considered as being multinational once it has subsidiaries abroad as is the case with the French public groups of CEA<sup>11</sup>, EMC<sup>12</sup> or CDF Chimie<sup>13</sup>, the Dutch group - Dutch State Mines, the British group - British Leyland, the Indian group - Indian Oil, or the Indonesian group - PT Asian Acch Fertilizer.<sup>14</sup>

(c) Finally, there is yet another type of enterprise, far scarcer in number, which goes to the point of adopting administrative methods or structures specific to multinational enterprises. One such entity is the holding company that Renault set up in Switzerland to handle the financial administration of the international group that it administers and which, with more than FF.8,000 million in foreign exchange annually now ranks as the fifth Swiss bank.

### 1.1.2 The multinationalisation of public national enterprises

Despite all this, none of these public enterprises have gone completely international. Limits are imposed upon all of them by the fact that they are subject to the surveillance of their shareholder State which means that they have to toe the line and respect a number of considerations of national interest.

Consequently, the concept of the public multinational enterprise will have to remain very general<sup>15</sup> even though certain authors have drawn up indicative lists.<sup>16</sup> Indeed, it is precisely this that highlights the original nature of the public multinationals.

Regardless of the problems that we may encounter in trying to describe them, the public multinationals are nonetheless economic realities, the existence of which it is difficult to deny and the importance of which has by now become considerable.

## 1.2 The importance of public multinationals

Although no statistical survey can accurately measure the importance of the public multinationals in the world economy, it can be appreciated firstly by the importance assumed by public enterprises at the domestic level in all countries and then gauged by various indicators of their international activities.

### 1.2.1 The national importance of public enterprises

17

An OECD survey effected in ten of its members, showed that the share of public enterprises in national employment grew steadily from 1960 to 1980. In all of the countries considered, employment levels were relatively better maintained in public enterprises than in private, especially during the recession of the mid-1970s. However, mention should be made of the fact that this OECD survey takes no account of the most recent period - 1980-84 - which was marked by an aggravation of the economic crisis and an expansion of domestic public sectors through direct nationalisation as in France in 1982<sup>18</sup> or by means of indirect nationalisation in the form of subsidiaries set up with the help of public funds.<sup>19</sup>

Another survey, this time effected by the CEEP (European Public Enterprise Centre) and published on the occasion of the Xth Congress of that organisation held in Lisbon on 27 and 29 June 1984, shows that the public sector in Europe now employs 8.5 million, which is 12.8 per cent of all non-agricultural mercantile jobs in the Community. If to this we add those employed in production and investment, we reached 16.6 per cent. This figure becomes all the more significant if we take account of the nationalisation which took place in France in 1982.

According to the same calculation, the public sector accounts for 22.8 per cent of all employment in France, 22.3 in Greece, 20 in Italy, 16.2 in Great Britain, 15 in Ireland, 14 in the Federal Republic of Germany, 12 in Denmark and nearly 10 in the Benelux countries.

The proportions of the public sector are even higher in the developing countries where domestic public enterprises account for an average of 25 to 70 per cent of measurable activity.

### 1.2.2 The international importance of public enterprises

(a) Where developing countries are concerned, we need to add subsidiaries subject to local law of foreign public enterprises - as often as not from industrialised countries - to an ever-growing extent from developing countries - as well as public plurinational enterprises, set up by a group of developing countries, such as Air Afrique or the Industries chimiques du Sénégal in Africa, or PT Asian Acch Fertilizer in south-east Asia - set up by public enterprises from five different countries to avoid foreign competition in the fertilizer sector, or the Commun Banana SA in Latin America which was created by States members of the Union of Banana Exporting Countries.

The number of such plurinational public enterprises in Africa - and the results expected of them - furthermore induced the members of the WAEC to adopt the first statutes ever of a plurinational public enterprise.<sup>20</sup> However, many of these public enterprises in developing countries - whether national or plurinational - have already grown into "Third World multinationals" that are just beginning to break the surface, the importance of which from the point of view of economic development, is only now becoming apparent.<sup>21</sup>

(b) In more general terms, the world-wide classification of multinationals made by the UN<sup>22</sup> in 1978 and which was based on consolidated turnover, already showed between ten and 12 public enterprises (depending on the criteria applied) among the top 50. If this classification were to remain unchanged and if account were to be taken of the private multinationals that have meanwhile been nationalised<sup>23</sup>, they would by now amount to well over 12. But even without indulging in such extrapolations, it suffices merely to consider the annual classifications prepared by certain economic journals - such as the biweekly Fortune - in order to realise the considerable importance assumed by public multinationals in just a few years. And this importance is growing because, since 1960, the volume of their sales has doubled in current dollars every seven years.<sup>24</sup> However, this importance comes as no surprise when one considers, for example, that entire sectors of world activity have now come directly



or indirectly under the control of public enterprises - be they in traditional sectors such as steel (one-half of the steel produced outside the non-centrally planned economies comes from public enterprises) or in more recent job-creating sectors such as the chemical or computer industry.<sup>25</sup>

Hence, both nationally and internationally, in developed and developing countries, the economic importance of public multinationals is a fact.

This economic importance is such that several tens of millions of persons employed around the world - regardless of nationality or qualifications - are dependent on the strategic decisions of such enterprises.

How are these strategic decisions made? By what process?

### 1.3 The strategic decision-making process of public multinationals and its peculiarities<sup>26</sup>

The prime characteristic of the strategic decision-making process of public multinationals resides in the state intervention implied by their very nature as public enterprises.

This state intervention takes different direct and indirect forms, to which we shall be returning<sup>27</sup> and which, while resulting in certain characteristics peculiar to the strategic decision-making process of public multinational enterprises, distinguishes them from the processes applied by private multinationals.

(a) The process does not take place entirely within the parent enterprise but involves a mass of outside bodies, e.g. instructions from technical ministries responsible for supervising the activities of the enterprise, offices, departments, the ministry for the economy and finance, economic planning bodies, boards, commissions, agencies, delegations specialised in civil aviation, transport, mines, petroleum, electricity or gas, energy production, women's interests and labour movements, ... more ministries (foreign affairs, foreign trade, labour, scientific research, etc.). One of the specific consequences of this is the relative slowness of the decision-making process of public multinationals as opposed to private multinationals.

(b) There is a certain element of chance involved which is not, in general, found in the case of the private multinational. Indeed, just because the board of directors might have approved a proposal, there is no guarantee that the supervisory ministry is going to give its authorisation and, even though an operation may have been prepared in the minutest detail on the strength of a verbal agreement of principle given by one of the supervisory administrations, there is no guarantee that a last-minute refusal to authorise the project may not make its implementation impossible. An example which well demonstrates this eventuality was the refusal by the French Minister for Industry to authorise the takeover by the public Elf Aquitaine Group of the US Kerr MacGee company in 1978. The group's directors were informed of the Minister's refusal as they left the plane on US territory and were about to implement a plan that had, for weeks beforehand, been prepared in the finest detail and on which an agreement of principle had apparently been given.

(c) This extraordinary strategic decision-making process forces those responsible for trying to run public enterprises to make endless and repeated applications to all manner of supervisory administrations in order to obtain authorisation from or any possible financial involvement by the public authorities. As a result, each negotiation results in a long and difficult negotiation in which the influencing potential of the administrators of public enterprises will depend on many very variable factors. There is, of course, their personality and personal influence, but there is also their personal knowledge of how the administration works, the coherence of the different supervisory bodies, the existence of a political will in government circles expressed in the form of a coherent industrial policy, not to mention the development prospects for the enterprise on its market or markets, the financial independence resulting therefrom and, finally, the margin left to them for personal initiative.

One could, of course, object that the strategic decisions of (private) national or multinational enterprises are also influenced by the State and that points of general interest concern these enterprises also.

By way of example, if we take the French petroleum sector, what is the difference between the two public enterprises, Elf Aquitaine and the Compagnie française des pétroles, which hold 50 per cent of the market, and the four private multinational enterprises - BP, Shell, Mobil and Esso - which share the remaining 50 per cent? Are they not subject to the same obligations under an old Act of 1928?

A study effected in 1977 precisely measured state influence over the various enterprises in the French petroleum sector.<sup>28</sup> It showed that the number of decisions influenced by the State - and hence the degree of state intervention in the strategy of each enterprise - was greater in the two public enterprises than in the four private enterprises mentioned. The following table, taken from this study, confirms this.

State influence on the French petroleum sector

Degree of state intervention	State decides alone	State decides - enterprise advises	State and enterprise decide	Enterprise decides - State advises	Enterprise decides alone
Type of decision					
<b>A. STRATEGY</b>					
1. Vertical integration			CP, EF, SH MO, BP, EX		
2. Diversification			EF	CP, MO, BP, EX	SH
3. Internationalisation			EF	CP, MO, BP, EX, SH	
4. Export			SH	CP, EF	MO, BP, EX
5. Means			EF	CP, MO, BP, EX, SH	
<b>B. ORGANISATION</b>					
				CP, EF	MO, SH, BP, EX
<b>C. FINANCING</b>					
1. Investments				CP, EF, SH, MI, BP, EX	
2. Long-term loans				CP, EF, SH, MO, BP, EX	
3. Capital structure			CP, EF	SH, MO, BP, EX	

State influence on the French petroleum sector (cont.)

Degree of state intervention Type of decision	State decides alone	State decides - enterprise advises	State and enterprise decide	Enterprise decides - State advises	Enterprise decides alone
<b>D. MARKETING</b>					
1. New products				SH, EX	CP, BP, EF, MO
2. Product lines				SH, EX	MO, CP, BP, EF
3. Prices	EX, SH, BP, CP, MO	EF			
4. Market sharing	SH, BP, MO, EX	CP, EF			
5. Advertising			BP	EX, MO, EF, SH	CP
6. Location of service stations	CP		SH, EF, MO, BP, EX		
<b>E. PRODUCTION</b>					
1. Choice of technology				EF, MO, BP	CP, SH, EX
2. Capacity augmentation				EF, MO, BP, CP, EX, SH	
3. Plant location				BP, SH, EF, MO, CP, EX	
<b>F. RESEARCH AND DEVELOPMENT</b>					
1. Amounts				CP, EX, SH, BP, MO, EF	
2. Earmarking resources				MO, BP, EX	CP, SH, EF
<b>G. EMPLOYMENT</b>					
					CP, SH, EF, EX, MO, BP
<b>H. SOCIAL POLICY</b>					
					CP, SH, EF, EX, MO, BP
<b>I. EXPENDITURE</b>					
				EF	CP, SH, EX, MO, BP

CP = Compagnie française des Pétroles; EF = Elf Aquitaine; SH = Shell; MO = Mobil;  
BP = British Petroleum; EX = Exxon.

Source: H.R. De Bodinat and M. Chambaud: "L'influence de l'Etat sur le secteur pétrolier français" Revue française de gestion, May, June, July and Aug. 1977, pp. 33 et seq.

It would thus seem that state intervention, be it direct or indirect, formal or informal, is definitely one of the original characteristics of the strategic decision-making process of public multinational enterprises which may, at the same time, be an advantage which such enterprises have over their private counterparts and a weakness which, come what may, is a feature of their special nature.

How does the shareholder State intervene in the strategic decision-making process of public multinational enterprises? What powers does it exercise over the public parent enterprises and what are the consequences of this on the first and second generation subsidiaries, especially those subject to foreign law? What role does the structural organisation of the public groups that they together form have in this respect? And finally, what degree of decision-making freedom do the foreign-based subsidiaries of these public multinational enterprises enjoy?

These are just some of the essential questions that this report intends, in some measure, to answer.

We have hence identified three different decision-making levels on the basis of which food for thought may be proposed concerning a model description of the strategic decision-making process of public multinational enterprises:

- at parent public enterprise level, where state influence is the strongest but the extent of which has to be determined;
- at the public multinational group level - and here we shall analyse the forms of structural organisation;
- finally, at the level of the first and second generation subsidiary subject to foreign law - and here we shall try to determine the degree of independence.

State intervention procedures are, as often as not, informal and depend on a large number of factors that frequently vary from one enterprise to another, and sometimes even within any given enterprise depending on the type of strategic decision concerned. It is, consequently, apparent that, to fully understand these procedures, on-the-spot investigation is necessary. However, as this has not been possible, we considered the best approach to be analytical.

#### Notes

- 1 Cf. A. Cotta and M. Ghertman (eds.): Les multinationales en mutation (Paris, IRM, 1983).
- 2 *ibid.*, pp. 219-220.
- 3 L. Rapp: Les filiales des entreprises publiques, LGDJ, 1983, preface P. Devolve, especially pp. 36 et seq.
- 4 See especially: Stuart Holland: Europe's new public enterprises in big business and the State (Harvard University Press, Cambridge (Mass.)), pp. 25 et seq.
- 5 Cf. G. Blanc and J.P. Anastassopoulos: "Public multinationals" in Les multinationales en mutation, *op. cit.*, pp. 162 et seq.
- 6 UN: Transnational corporations in world development: A re-examination (New York, 1978).
- 7 Over the past ten years, Peugeot (a private group) is purported to have paid in profits tax an amount equal to twice that that the State has invested in financing Renault, Le Monde, 11 July 1984.
- 8 Cf. L.T. Wells: Technology and Third World multinationals, Multinational Enterprises Programme Working Paper No. 19 (Geneva, ILO, 1982).

<sup>9</sup> Cf. D.J. Encarnation: "The political economy of Indian joint industrial ventures abroad", in International organisation (Cambridge, MIT Press), Vol. 36, No. 1, 1982, p. 21.

<sup>10</sup> In paragraph 6 of the Tripartite Principles Declaration concerning Multinational Enterprises and Social Policy, adopted in November 1977 by the Governing Body of the International Labour Office.

<sup>11</sup> Atomic Energy Commission - a French public enterprise in the nuclear energy sector.

<sup>12</sup> A mining and chemical enterprise established in 1970 in the form of a holding company for the regrouping of various French mining or chemical enterprises.

<sup>13</sup> Chemical subsidiary of Charbonnages de France which has become a true independent public enterprise.

<sup>14</sup> A public enterprise set up by five public enterprises from different countries, the object of which is to combat foreign competition in the fertilizers sector (cf. Blanc and Anastassopoulos, op. cit., p. 173).

<sup>15</sup> See section 1.1.1 above.

<sup>16</sup> See, for example, D.F. Lamont in "Foreign state enterprises: A threat to American business", 1979. See also Stopford and Dunning: Multinational company performance and global trends (Macmillan, 1983), p. 127.

<sup>17</sup> OECD Observer, Mar.-Apr. 1983, p. 5.

<sup>18</sup> See especially: J. Blanc and C. Brule, Les nationalisations françaises en 1982, French documentation, END, Nos. 4721-4722, 20 June 1983.

<sup>19</sup> Rapp: Les filiales des entreprises publiques, op. cit.

<sup>20</sup> See especially Tropical markets, 7 Jan. 1983, p. 21.

<sup>21</sup> Cf. Wells: Technology and Third World multinationals, op. cit.

<sup>22</sup> UN: Transnational corporations in world development: A re-examination, op. cit.

<sup>23</sup> Despite a significant move towards denationalisation in Great Britain, as well as Sweden, the Federal Republic of Germany and Spain, not to mention many Third World countries (Africa, Latin America, Asia).

<sup>24</sup> According to Blanc and Anastassopoulos, op. cit.

<sup>25</sup> See, especially, K.D. Walters and R.J. Monsen, "State-owned business abroad: New competitive threat" in Harvard Business Review, Mar.-Apr. 1979.

<sup>26</sup> Concerning decisions and strategic decision-making processes, see M. Ghertman: Decision-making in multinational enterprises: Concepts and research approaches, Multinational Enterprises Programme Working Paper No. 31 (Geneva, ILO, 1984).

<sup>27</sup> See especially pp. 17 et seq.

<sup>28</sup> H.R. De Bodinat and M. Chambaud: "L'influence de l'Etat sur le secteur pétrolier français", in Revue française de gestion, May, June, July and Aug. 1977, pp. 33 et seq.

## 2 - THE FIRST DECISION-MAKING LEVEL: THE PARENT PUBLIC ENTERPRISE

The parent public enterprise is the most important level from the point of view of strategic decision-making. In the first instance, this is so because the parent public enterprise is the original structure from which the public multinational enterprise has progressively grown. The main reason, however, is because it is the strategic decision-making centre for all of the companies of which it is comprised.

In principle the strategic decision-making body within the parent public enterprise is its board of directors. However, contrary to what has been observed in certain private multinationals, the intervention of the board of directors of a public multinational is far from having become a formality. It continues to be an essential stage in their strategic decision-making process, especially because of the presence and powers of representatives of the shareholder State and, more recently in France, of the elected representatives of the staff of the group.

However, just as in private multinationals, all of the actual strategic planning in public multinationals is done by the general management. But in nearly all countries, the State tries to control the strategy of its public multinationals and even to direct it in accordance with the interests of the national economy.

What sort of influence does it exercise? By what means? And with what results?

Such are the questions which we have tried to answer by considering successively:

- the strategic decisions made by the board of directors of the parent public enterprise; and
- the strategic goal-setting falling within the purview of the general management.

### 2.1 The influence of the shareholder State and the taking of strategic decisions

Whether the parent enterprise be a public body (public corporation, Oeffentliche Anstalt, Ente di Diritto Pubblico, Organismo autónomo, Etablissement public) or a commercial company (crown corporation, Empresa Nacional, Société publique), the general rule would have it that decision-making powers lie with its board of directors.

#### 2.1.1 The decision-making powers of the board of directors

This strategic decision-making prerogative is most explicitly confirmed in the articles of association of each public enterprise. In some cases, it results from a general clause conferring all powers - and especially all strategic decision-making powers - on the board of directors in order that it attain the goals of company policy. In other cases, it results from a list of powers conferred on the board and which include the power to make a number of decisions of a strategic nature (acquisition, merger, splitting, cession, diversification, etc.).

In such terms, these texts confirm:

- (a) firstly, the independence of management of each public enterprise, the strategic decisions of which are made by its own bodies and by its board of directors in particular;
- (b) secondly, a certain alignment of the rules applicable to public enterprises on those of private enterprises. The difference, however, is that public enterprises do not have general meetings of shareholders except in the cases of mixed-economy enterprises and there they are relieved of their prerogatives;
- (c) finally, these texts confirm the representation value of the board of directors on which representatives of the State sit side by side with staff representatives or even user or consumer representatives.

On this last point, it is very significant to note that the very recent French Democratization of the Public Sector Act of 26 July 1983<sup>2</sup> most solemnly reaffirms the powers of the board of directors of public enterprises with respect to strategic decision-making.

Article 7 of that Act, in fact, reads as follows: "No decisions concerning the major strategic, economic, financial or technological policies of the enterprise ... may be made without their firstly having been discussed by the board of directors or the supervisory authority".

### 2.1.2 The limits of the decision-making powers of the board of directors

Even though these powers of the board are very liberally defined, a number of limits are nevertheless imposed.

2.1.2.1 Firstly, there are the limits which derive from the declared object of each enterprise and in accordance with which the enterprise is, in general, defined. However, this first type of limit is not really very inhibiting because the declared object of public enterprises is generally couched in terms as general as those of private enterprises. Nevertheless, there are some examples of public enterprises - such as the French Atomic Energy Commission and its subsidiary, Cogema, whose objectives have been more closely - and hence more restrictively - defined by the public authorities in order to prevent too great a diversification of their activities. Here, surely, is one way in which the shareholder State can intervene in the strategic decision-making process of parent public enterprises by simply limiting the number or area of application of the strategic decisions that the governing bodies of such enterprises can make.

2.1.2.2 Then there are the limits imposed by the parallel powers of other bodies in or external to the parent public enterprise. Some examples of this follow.

(a) In mixed economy enterprises, it should be remembered, there are general meetings of shareholders comprising public and private shareholders. The task of these general meetings of shareholders is to participate in the decision-making process, albeit by applying the rules of commercial companies. Many of these mixed economy enterprises, however, are a commercial fiction in that the majority share is in public hands and so the general meeting does not really have any further reason to exist. And then, again, the articles of association of such entities contain many departures from the law governing commercial companies and, among these departures, are provisions to reduce the decision-making powers of the general meeting of shareholders.

(b) The articles of association of the French public enterprise - Renault - do not endow the board of directors with any consultative powers with respect to strategic decision-making. The power to make such decisions has been vested in the managing director of the enterprise "assisted by the board of directors", as the terms of the articles put it. In actual fact, this power is exercised jointly within an executive committee chaired by the managing director and on which sit delegates from every aspect of the group's activities.

(c) The current structures of the French public petroleum group - Elf Aquitaine - provides an example of an organisation that limits the powers of the board of directors of the parent enterprise with respect to strategic decision-making. This public group is, in fact, the outcome of a reshuffle of two pre-existing public enterprises in 1976. They were the Entreprise de recherche et d'activités pétrolières (ERAP) and the Société nationale des pétroles d'Aquitaine (SNPA). The ERAP, a public corporation, the capital of which is entirely state owned, came out of this merger intact but, as a result, a new company was formed under the style of la Société nationale Elf Aquitaine (SNEA), in which ERAP holds 71 per cent of the capital and on which it was authorised to confer all of its assets, rights and obligations. Until 1980, the chairmanship of the boards of ERAP and SNEA could be vested in one person so that, even though it was a subsidiary of ERAP, SNEA was the true parent public enterprise of the French public petroleum group. A Decree, dated 30 July 1980, put an end to this situation, forbidding both chairmanships from being vested in the same person and establishing a total separation of responsibilities between the SNEA and the ERAP.

The SNEA, which is an industrial enterprise, certainly remains fully in control of the strategic decisions of the group. It defines strategy and directs activities. But ERAP has now become the State's think-tank and decision-maker where petroleum policy is concerned.

The Decree states that the function of ERAP is to ensure that:

- the group's petroleum policy be in line with the national energy policy;
- diversification by the group in other sectors complies with the aims of this policy;
- its efforts to develop the south-west region of France effectively contribute to strengthening the economic potential of that region;
- other diversification activities do not spread the public sector, and that they be administered in accordance with the rules of competition;
- the structure of the group be adapted to the scope of its new means in accordance with the methods applied in comparable enterprises.

As a result of this, the decision-making process within the Elf Aquitaine group has become two-tier;

- within the SNEA board of directors; and
- within that of the ERAP.

(d) This sector holding technique used in the Elf Aquitaine group has been applied to organise the public sector in a number of countries such as Spain, Italy or Sweden.

In Spain the central body is called the Instituto Nacional de Industria (INI). In fact, as M.F. Garrido Falla<sup>3</sup> points out, "from a conceptual point of view it is incorrect to say that INI is a public enterprise. What we here have is decentralised state function. Only the enterprises which make up the INI, which is state-owned, are legally speaking public enterprises". In practice, however, INI acts as a holding company, administering and controlling the shares it holds in the some 120 enterprises within the group.

The boards of directors of each of these several enterprises - such as Iberia, for example - which are true public enterprises, continue without any doubt to be their strategic decision-making bodies but within the limits of the powers vested in the INI board of administration and, to an even greater extent, of those vested in its main administrative body - the administrative committee.

The Italian system is even more complex because the holdings, such as the IRI<sup>4</sup>, or the ENI<sup>5</sup> are subdivided into subholdings. In the case of the IRI, there are five examples - Finmare (shipping), Finmeccanica (industrial engineering), Finsider (steel), Stet (telephones) and Fincantieri (shipyards). The establishment of subholdings is generally justified by the existence, in any sector of activity, of some administrative problem which has to be solved. For example, the banks are answerable directly to the IRI because their administration does not pose any great sectoral reorganisation problems. This does not, however, hold true for the machine tools sector for which the subholding "Finmeccanica" has been created. According to the logic of the Italian system each of these subholdings is supposed to act as a sort of technical centre of management for the branch of activity to be reorganised.

Consequently, while enjoying a fairly wide margin of decision-making freedom, the boards of directors of the manufacturing companies - the true public enterprises - have to respect investment, production and employment plans imposed on them by the subholding to which they belong and, by extension, by the IRI.

The Swedish National Corporation, Statsforetag AB, falls between these two different forms of organisation of the public sector while being based on the same principles. It does, in fact, act for the Swedish State as a holding company which administers and controls the 28 companies owned by the State, thus keeping them under strict surveillance while still leaving them free to take initiative.



As a result of this, the board of directors of each company in the Statsforetag has to abide by the goals set for it by the holding company in the general interest and for the better administration of the state budget.

(e) Finally, if we look beyond the examples of the free Western economies, we cannot help but refer to the special forms of organisation of the planned economy of Eastern Europe, the very hierarchical structure of which implies observation of decisions taken at three successive levels - central government level, ministerial and central office level and industrial union, foreign trade office and general directorate level. However, it is true that in that system the industrial and commercial enterprises which make up a fourth decision-making level do not have boards of directors or even any alternative form of deliberative body as do enterprises in the Western countries. They are, however, subject to inspection and - especially where employment is concerned - instructions from bodies such as the people's councils. In countries practising worker self-administration there are also workers' councils which exercise real decision-making power within the enterprise.

2.1.2.3 Then there is a final type of limitation placed on the strategic decision-making powers exercised by the boards of directors of public enterprises and that is that which stems from a system of authorisations to which the strategic decisions of public enterprises are subject and which is often referred to in a model clause found in most articles of association and which reads "... and subject to the necessary administrative authorisation". The consequence of this authorisation system is that decisions by the board of directors that are not approved by the relevant bodies of the shareholder State just cannot be implemented.

This system of authorisations obviously varies widely from one country to another and even within any given country it can vary depending on the type of public enterprise or strategic decision that is at issue.<sup>6</sup> It may imply intervention by the legislator (the case of transfers of enterprises from the public to the private sector in France) or, on occasions, arbitration by the Head of State. As often as not, however, it will involve the government or the supervisory ministry if not their representatives with each public enterprise, be they state inspectors, government commissioners or the like. It generally takes the form of either explicit or implicit approval of the decisions adopted by the boards of directors. It may, however, also take the form of decisions taken jointly by the enterprise and its supervisory body.

Regardless of the form it may take, it prompts two comments:

- (a) It tends considerably to limit the decision-making powers of the board of directors as decisions cannot be implemented before approval. A significant example of this is the takeover of the United States firm of Kerr MacGee by the Elf Aquitaine group referred to above. This takeover was foiled at the eleventh hour simply for want of ministerial approval even though all necessary precautions had been taken including, in particular, a favourable decision by the board of governors of the SNEA.
- (b) The extent of this system of authorisations is very considerable as it covers all strategic-type decisions whether they concern general activity programmes, budget and accounting forecasts, loans, real property deals, conclusion of market contracts, investments, disinvestments, appointment and dismissal of managers, etc. for all of which decisions the approval of the board of directors is a mere formality.

But even though it is already very extensive, it may furthermore be very loosely interpreted by the supervisory body, especially if the text in which it is defined is couched in general terms or is not legally binding upon it. This is the situation in Tunisia where the system of authorisation applicable to public enterprises is defined in a simple administrative circular so that, in practice, every single decision taken for or by a Tunisian public enterprise - including those concerning day-to-day administration - have to be submitted to the supervisory body for approval. It is true, however, that in the current economic context any decision can assume a strategic value by virtue of its effect on the future of the enterprises - even day-to-day decisions.

2.1.3 The influence of the shareholder State on the board of directors as the strategic decision-making body

Therefore the influence of the shareholder State is exercised on the board of directors of the parent public enterprise which board itself has decision-making powers in strategic matters.

2.1.3.1 This it does in three ways:

- (a) Firstly through the system of authorisation that has just been discussed<sup>7</sup>, and which enables it to participate in all strategic decision-making that it has not itself initiated or where it does not itself have exclusive decision-making powers.<sup>8</sup>
- (b) Then by placing its representatives on the boards of directors: government inspectors or government commissioners, who at times carry an absolute right of veto which means that they can oppose any decisions that go against the national interests. In some countries, such as Mexico, tradition would have it that the supervisory minister is entitled to chair the boards of such public enterprises as fall within his purview. Obviously he cannot chair all of them and, in practice, he delegates this power. But this rule does give him a front-seat view of what is going on. He is thus legally able to step into the strategic decision-making process of each public enterprise at any time, especially into those of a multinational character (PEMEX, for example).
- (c) Finally, by appointing members to sit on the board. These appointment rights devolve from its majority shareholder rights - when it is not indeed the sole shareholder - but these rights also enable it at times to substitute this method of appointment for other, more democratic methods as, for example, in appointing the users' representative or checking the choice of representatives elected by other categories of interest such as the staff of these public enterprises.

These are all different ways in which the shareholder State can keep tabs on the boards of directors of public enterprises and, through these boards, on the strategic decisions that they are empowered to make.

2.1.3.2 Nevertheless, recent developments in the forms of organisation and administration of public enterprises tend to limit the extent of the influence exercised by the shareholder State over the boards of such enterprises.

(a) Firstly, progress in social legislation, the necessary democratisation of public sectors and also the high degree of organisation of the staff of public enterprises with the backing of powerful trade unions<sup>9</sup> have progressively led to an involvement of staff representatives in all the major decisions concerning the future of their enterprises. Indeed, in most Western countries the percentage of trade union affiliation in public enterprises is much higher than in private enterprises.

This involvement is still, in most cases, informal. It is imposed by the pressure of circumstance rather more than by its own weight. The example of the operation of all airline companies bears this out. Nevertheless, this trend is becoming ever more institutionalised. In this respect, introduction of voting rights and of the democratisation of the public sector embodied in recent legislation in France is an innovation, the consequences of which it will be interesting to observe, especially with respect to the control exercised by the shareholder State over the strategic decision-making activities of public enterprises.<sup>10</sup>

In fact, a total of some 2.2 million staff members directly elected their representatives on the boards of public enterprises and of some of the subsidiaries thereof and these representatives now occupy one-third of the seats.

In other words, no strategic decision falling within the purview of the boards of directors can henceforth be taken without their involvement.

(b) At the same time, the desire to co-operate with other States or enterprises - public or private, domestic or foreign - and at times also inextricable financing or administrative problems have caused a number of States - mainly in the Third World - to open up their public enterprises to outside capital or to create real public joint ventures.

A particularly significant example of this is the Société des industries chimiques (ICS) in Senegal. This is a public enterprise under Senegalese law, founded in 1980, with - as its main shareholder - the State of Senegal (23.3 per cent) together with:

- three other neighbouring States - Ivory Coast (9.4 per cent), Nigeria (9.4 per cent) and Cameroon (9.4 per cent);
- representatives of Indian interests (18.9 per cent), India being one of the main world consumers of the phosphates and phosphatic fertilizers produced by ICS;
- a subsidiary of a French public enterprise - EMC (Entreprise minière et chimique) (9.4 per cent) which has signed a number of technical assistance and trading agreements with ICS; and
- various foreign financing institutions including the Islamic Development Bank (9.4 per cent).

Needless to say, such financial patchworks are particularly interesting from the point of view of using the public enterprise for economic development purposes. But of course this arrangement also imposes inevitable limitations on the strategic decision-making powers of plurinational enterprises. In the case here at issue these limitations are such that the State of Senegal has finally ended up with only one-quarter or so of the capital stock and consequently one-quarter of the seats on the board.

(c) Finally, we cannot omit mention of the privatisation or denationalisation of public enterprises in many European and Third World countries as a result of which seats on the boards have gone to representatives of private or foreign interests.

In Europe, five major countries effected or considered privatisation:

- the United Kingdom, of course, which after the privatisation of British Aerospace (1981), Britoil (1982) and Sealink (1983) considered that of Jaguar (July), British Telecom (December) and, in 1985, British Airways.<sup>12</sup>

Then, on a lesser scale, there was:

- the Federal Republic of Germany (reduction of public interests in VEBA, an energy products firm, and in Lufthansa the national flag-carrier);
- Sweden (sale of 15 per cent of the shares in the PK Bank);
- Italy (sale of 30 per cent of the shares in a public arms manufacturer);
- Spain (adjudication of nearly all of the banks in the RUMASA group to a pool of 12 private financial establishments).

The consequence of each of these partial denationalisations is a reduction in the slice of the share capital held by the shareholder State, if not a total loss of state control so that, during an interim phase at least, although the enterprises have not reverted to being wholly private, the State retains but limited control over their strategic decisions.

Third World countries are also affected by this wave of privatisation of public enterprises. During the summer of 1983 alone, at least eight countries announced such privatisation measures.

- two Latin American countries: Brazil and Mexico;
- five African countries: Kenya, Zaire, Equatorial Guinea, Ivory Coast and Congo; and
- one south-east Asian country: Malaysia.

It should, however, be pointed out that in the Third World such privatisation concerns mainly the administration of public enterprises rather than their capital stock so that the problem of the coexistence of public and private interests, especially where strategic decisions

are concerned, is far more acute. How, in fact, is it possible to strike a happy balance between conflicting interests when the capital of an enterprise remains for the most part public while its administration is in private hands, as is now the case, for example, with a number of Zairian enterprises?

Evolution in the forms adopted by the organisation and administration of public enterprises has, therefore, imposed limitations on the control exercised by the shareholder State over the boards of directors of public enterprises and hence over the strategic decisions made by such boards. Nevertheless, the power of the shareholder State is still considerable. It can, at any time, block the decision-making process or even impose such strategic decisions as it may deem preferable.

What sort of influence does the State exercise over the general directorate of public enterprises which is responsible for the preparation and implementation of decisions and hence for the strategy of each enterprise?

## 2.2 The influence of the shareholder State and the setting of strategic goals

Administration of a public enterprise is normally vested in a general director who very often who very often combines his own functions with those of chairman of the Board so that he is a sort of managing director.

### 2.2.1 The role of general management in setting strategic goals

With the assistance of one or more vice-general directors and, in some cases, vice-presidents, he exercises his authority over the various operational (administrative, legal, financial), functional (development, diversification, ...) and geographic divisions. Although he is technically the senior officer he still - in most cases - exercises his decision-making power jointly with the other members of his management committee<sup>3</sup> on which sit the heads of the various functional departments of the enterprise (legal and financial in particular) and the heads of the operational or geographical divisions concerned and even - when they, too, are concerned - the heads of holdings and sectoral subholdings.

2.2.1.1 According to the articles of association, except in certain notable exceptions such as the French public enterprise, Renault, his role is executive - he draws up and implements the decisions adopted by the board of directors which is the only body empowered to make such decisions.

In addition, he exercises the limited powers vested in him either because he has been delegated by the board of directors - which may mean that he has some degree of independence in the making of strategic decisions - or because he is empowered so to do by the articles of association which, in the case of some public enterprises, list the powers vested in the managing director.

2.2.1.2 But if we consider the day-to-day practice of the strategic decision-making process, it is he who institutes and runs the entire strategy of the parent public company.

There are various reasons for this.

(a) Firstly, the board of directors - or whatever body serves as such - is generally not permanent. It meets "whenever the interests of each public enterprise so require", as the standard clause in the articles put it. In most public enterprises, they tend to meet at least once a month but only when convened by the chairman - who is usually the managing director - who sets the agenda.

It should be noted, however, that in the case of public enterprises, the board of directors is not a permanent body. It meets whenever the interests of each public enterprise so require, as the standard clause in the articles put it. In most public enterprises, they tend to meet at least once a month but only when convened by the chairman - who is usually the managing director - who sets the agenda.

This means that, even if he does not have any particular strategic decision-making power, it is the managing director who takes initiatives, makes proposals and provides the impetus which makes the board an essential body in the definition of the strategy of any public enterprise and that which shapes it legally and financially.

He is also the person who implements the decisions adopted by the Board. He decides how the decisions are to be applied and this is strategically particularly important, as the board decides on the principle of a measure only and not on how it is to be implemented.

(b) Apart from this first aspect the managing director is also endowed with very broad decision-making powers delegated to him by the board regardless of what the articles may say on the matter.

- This is because the operation of public multinational enterprises may call for immediate and rapid decisions for which it is not always possible - nor yet desirable, given the publicity that such discussions receive - to convene the board.
- But it is especially so because certain strategic investment decisions, and especially those involving relatively small sums, can be taken by the managing director of the parent public enterprise without its being necessary to convene the board. Such amounts are set by a general management internal memo which also states the investment sums for which sub-delegation of powers may be envisaged.

In practice, such delegation is defined by the board in very general terms and in some cases the managing director is given a free hand in this respect. The use of such delegation is a means - often resorted to after the situation has become out-of-hand - of regularising a procedure which in itself is irregular because, in principle, these strategic decisions should be taken by the board.

(c) Finally, even though he may not have any strategic decision-making powers, the managing director has a considerable advantage over the board, which advantage is conferred on him by his position as senior officer of the enterprise which allows him to avail himself of the various technical services of the general directorate. In this sense he has a real monopoly of information concerning all that is going on within the enterprise as well as in the economic environment in which it exists so that he holds in his hands all of the forecasting data necessary for determining and making the strategic decisions for the parent public enterprise.

As the shareholder State cannot itself control the various departments of its public multinational enterprises, it has to rely essentially on the managing directors of these enterprises to implement their controlling powers by vesting in him their discretionary powers to appoint and dismiss at will.

### 2.2.2 The influence of the shareholder State on the general management

So the shareholder State does, in fact control the making of strategies decisions in public multinationals by means of the power it has to appoint the managing director and the means it has to exert pressure on him.

2.2.2.1 The power of appointment is purely discretionary. And even if the board of directors, in some cases, is empowered to propose its managing director, the shareholder State is free to appoint the person of its choice. It is not even bound by the articles of association of the parent public enterprise because, if the articles do not suit the State, the State just amends them as, in most cases, they were originally imposed by some Act of parliament or the like. In 1978, for example, the French Government amended the articles of the ERAP in order to be able to impose a managing director who did not comply with the requirements as originally stipulated in its articles.

This prerogative thus enables the shareholder State to appoint executives whose personality strikes it as being more in keeping with the results that it expects from its public enterprises.

In countries with a long civil service tradition, it is usual that a senior official be appointed. This is the case in the United Kingdom or France. However, in these countries, as in others, the appointment of a manager is becoming ever more frequent. In Sweden, it would appear even to have become the rule. In other countries - Italy, for example - political considerations play a dominant role in choosing persons to manage public enterprises which thus are, so to speak, committed to the current government.

It is obvious that the personality of the people in charge of public enterprises - be they government officials, managers or political figures - is going to affect the nature of the strategic decisions that they will take and even, in more general terms, the strategic decision-making process itself. Each head of enterprise, depending on his training, his previous experience or his temperament, will have his own ideas about the strategy of the enterprise and the way in which it is to be determined and implemented. The shareholder State knows this. It places in the seats of decision persons in whom it has confidence and whose managerial qualities and sense of the common good it has been able to observe in order to observe in other comparable functions.

2.2.2.2 But the extent of the influence that the shareholder State can exercise on strategic decision-making in this way should not be exaggerated. It has its limits.

(a) Firstly, because the appointment of persons by the State to run its public enterprises does not guarantee that the persons appointed are going to be perfect "yes-men". Any number of those appointed to head a public enterprise have, no sooner appointed, adopted a true "captain of industry" mentality, with a special eye to the financial well-being and expansion of the public groups under their management. And, as a result, they ended up by opposing the intervention of the government which did, after all, appoint them.

(b) Then, because the development of the size of the administrative bodies of certain public enterprises - and a certain recruitment policy - have led to the appearance of regular "cliques" within managerial services. For example, it is well known in France that the general administration of the public petroleum enterprises is the exclusive purview of mining engineers, while the arms or aeronautical construction industries "belong" to the graduates of the polytechnics, so to speak.

As a result of this the State is quite often not entirely free in its choice of person to head one of these public enterprises and, even though appointed by the government, such a person would have all manner of problems in performing his function if he is not drawn from one of these "cliques" or at least accepted by them.

So it is of the utmost importance that the various departments of a public enterprise accept the managing director imposed on them as the implementation of strategic decisions involves the delegation of a maximum of responsibilities at all levels and hence perfect teamwork.

(c) Thirdly, because the appointment of some "government top brass" at the head of a public enterprise does involve a risk of that person, far from giving way to state influences, in fact turning round and himself exercising real influence over the political bodies to which he is responsible. This is what, in fact, happened with one of the leaders of the Elf Aquitaine group who, because of his training, his age and also the fact that he was a former minister, actually exercised considerable influence over the Department of Fuels - the supervisory authority to which the enterprise is answerable.

The fact remains that if the managing director of a public enterprise exhibits too much independence in the exercise of his functions or does not match up to what was expected of him, the shareholder State has ways of making him toe the line.

(a) To start with, it can simply dismiss him. It has particularly wide powers in this respect as constant jurisprudence in many countries recalls that although the functions of the managing director of a public enterprise do not appear on the list of posts to be filled by the government at its own discretion, it is nonetheless up to the government "to decide, in the light of the nature of the post, to terminate the appointment of the administrators in question at any time if the interests of the service so require".

(b) But the shareholder State may also await the end of his term of office and then not renew or, in the case of a civil servant, decide to terminate his detachment or else limit his powers. Indeed, in 1980 the French Government decided that, as was explained above<sup>21</sup>, the post of Managing Director of the Elf Aquitaine group and that of Managing Director of the Petroleum Research and Activities Enterprise would no longer be compatible and vested in a single person. This considerably limited the powers of the current managing director of the group.

However, such disciplinary measures are the exception because of the stir they cause among the public.

### 2.2.3 The extent of the influence of the shareholder State on the strategy of public multinational enterprises

Finally, the exact extent of the influence exercised by the shareholder State over the strategic policy-making of the public multinationals depends on the balance of power.

(a) On the side of the State it is the political will of the government, the coherence of the supervisory administrations, and even the personal powers of persuasion of any given minister or head of department that seems to be decisive.

(b) The strength of the heads of the public multinational enterprises seems to lie - in their personal characteristics, certainly - but also in the financial situation of each enterprise.

As Saint Geours<sup>22</sup> pointed out, at a pinch it is the position of the enterprise on its market that is decisive in determining the situation of its administrators in relation to the public authorities. If the enterprise has good development prospects and can raise the necessary funds itself, it can manage without state financing and so the administrators have more freedom in determining their strategic goals. On the other hand, however, if the enterprise is operating on a falling market or if it is not progressing fast enough to finance itself, it is going to have to fall back on state aid. This, then, deprives its administrators of their decision-making independence.

In this respect, it is very interesting to see how the relations between the multinational Renault group and the public authorities have developed over the years. There were some periods when the group managed to raise independent funds and others - such as now - when it has had to fall back on public financing.<sup>23</sup> During the "fat years", and during the 1960s especially, the administrators could "cock a snook" at the Government and refuse to budge an inch from their chosen strategic path (especially by not going into farm machinery as the Government wanted it to do). During the "lean years", however, it is harder for them not to bow to the will of the State for, if they did this, they might imperil the industrial dynamism of the public group.

Still, even when the decision-making independence of the administrators of a public multinational enterprise is thus limited by too great a financial dependence on the shareholder State, and the State does intervene to influence strategic decision-making, such intervention is nearly always short-lived and focussed on specific operations. Intervention does not constitute a co-ordinated and consistent policy.

As a result, the State is often accused of lacking coherence and clarity in its interventions in the strategic goal-setting of public enterprises.

At a pinch, if the administrators have a certain freedom of decision, they may not be any too clear as to what the State expects of them.

Indeed, this is what the administrators of European public enterprises noted at their congress held in Lisbon from 27 to 29 June 1984.<sup>24</sup> In their closing statement, they said that they hoped that "firms would be created that could compete at world level" which, in their opinion, presupposes "a revision, in the light of the latest economic constraints, of the

criteria by which are defined the tasks of the public enterprise and the system of its relations with the public authorities".

There are, however, two sets of elements which seem to indicate a positive development in the relations between the shareholder State and the officers and bodies of public enterprises.

Firstly, the development of contractual forms of state supervision of public enterprises. This is what is happening in France where planning contracts are now being concluded between the State and the public enterprises which follow upon the programming contracts of the early 1960s and the enterprise contracts as from 1978.

These create new relations between the State and public enterprises especially when it comes to adopting strategic decisions. Actually, the planning contract is based on the preparation by the public enterprise administrators of a medium-term plan which is submitted to the public authorities for approval. The authorities then make their comments and announce the strategic goals that they set each public enterprise in the light of domestic priorities. This is followed by a discussion involving the staff of the public enterprises in the persons of the representatives of the board of directors who have to be answerable for the enterprise plan and contract issued by the board, and the representative bodies of the enterprise which have to be consulted.<sup>25</sup> From the resulting decision stems a contract which, in its current form, comprises three parts:

- the first part describes the development goals of the enterprise (strategy of the enterprise as a whole and of each of its sectors);
- the second part defines the part to be played by the enterprise in attaining a number of goals of national interest: employment, training, research, development;
- the third part covers the financial commitments of each of the parties: the shareholder State and the public enterprise.

Even though no legal sanctions attach to these contracts - other than the prerogatives of the State that have already been described - they do set a framework for relations between the State and the public enterprises. The bodies of each enterprise should then be perfectly free, within this framework, to determine the strategy of the enterprise while respecting the commitments made and the State should, in principle, refrain from any further interference in the strategic decision-making process.

The French experience of contracts concluded between the State and the enterprises is still, of course, very incomplete. But it does seem to be arousing increasing interest in other European countries. However, it is a fact that the negative employment situation in large groups has not spared the French public enterprises of which both staff and investments are shrinking. These enterprises cannot escape the need for industrial restructuring which causes some commentators to conclude that the time has come for a greater degree of administrative independence from the supervisory public authorities.<sup>26</sup>

Then there is a second point that indicates an impending change in relations between the State and the public enterprises. This is the increase in many countries of "post mortem" investigations into public enterprises, especially on the basis of reports rendered by auditors general and other highly-placed public finance investigatory bodies. This is, in fact, slowly shaping a set of "ethics", so to speak, for public enterprises and this may influence both their strategic decision-making processes and the very nature of the decisions that their decision-making bodies will have to take.

All in all, it would seem that the shareholder State has a fairly considerable power of intervention in the strategic decision-making process of its public multinational enterprises. This is true even where this power of intervention encounters a number of limitations in practice.

Consequently, public multinational enterprises are not free to decide their own strategy, as are private multinational enterprises and so, in addition to the characteristics that public and private enterprises share - the complexity of decision-making, in particular - the former also have to cope with a number of hindrances or constraints peculiar to the public nature of their parent enterprises.



Notes

<sup>1</sup> Exceptions are rare. See especially the example of the French Renault enterprise discussed in section 2.1.2.2(b).

<sup>2</sup> It increased staff involvement in the boards of directors of French public enterprises in which they occupy one-third of the seats and elect the directors' representatives.

<sup>3</sup> In La Empresa Pública en el derecho español - Revista de Derecho Privado, Feb. 1986.

<sup>4</sup> Istituto per la Reconstruzione Industriale.

<sup>5</sup> Ente Nazionale di Idrocarbura.

<sup>6</sup> With respect to the different forms of authorisation required for decisions to create subsidiaries of public enterprises see Rapp. op. cit.

<sup>7</sup> See section 2.1.2.3.

<sup>8</sup> See table above, taken from the study by De Bodinat and Chambaud, op. cit.

<sup>9</sup> Law No. 83-675 of 26 July 1983 on democratisation of the public sector, Journal officiel de la République française, 27 July 1983, p. 2326.

<sup>10</sup> For a first account of the application of these texts, see the first report by the Supreme Council for the Public Sector as submitted to the President of the French Republic on 14 November 1984.

<sup>11</sup> Majority or jointly-held subsidiaries for more than six months and which have had a staff of at least 200 for 24 months.

<sup>12</sup> See especially F.E. Dangeard: Nationalisation et dénationalisation en Grande-Bretagne, Notes and documentary studies Nos. 4739-4740, La documentation française, 1983; J.M. Macabrey: "Un bouleversement du paysage industriel: la privatisation des entreprises publiques en Grande-Bretagne", in Le Monde, 28 Aug. 1984, p. 13.

<sup>13</sup> Some of these committees are recognised by the articles of the enterprise: article 20 of the articles of the Petroleum Research and Activities Enterprise.

<sup>14</sup> See, for example, article 18 of the Articles of Association of the Banque nationale de Paris, and article 25 of the Articles of Elf Aquitaine.

<sup>15</sup> See, for example, June 1984, the non-renewal of the term of office of the managing director of the USINOR French steel group, or else that of the managing director of the Credit Commercial de France.

<sup>16</sup> Concerning the personalities of the administrators of French public enterprises, see the study by J.P. Jarnevic and M. Chenevoy in Revue française d'administration publique, No. 4, 1977, pp. 91 et seq.

<sup>17</sup> See Le Monde, 3 Apr. 1984, p. 15.

18 It took all the authority of the French Head of State to have Mr. Albin Chalandon, who had been appointed to run Elf Aquitaine in 1978, accepted by the heads of the various departments of that public enterprise, to whose "clique" he did not belong. More recently, the French State had some difficulty in imposing Mr. X. Ortoli on the general administration of the Compagnie française des pétroles because his personality was not in keeping with the stereotype mining engineer or polytechnic graduate.

19 See the above-mentioned study by De Bodinat and Chambaud.

20 By way of example, see the decree by the French Council of State concerning the administration of the Agence-France Presse which is a state-controlled industrial and commercial enterprise (Nègre decree).

21 See p. 12 above.

22 Pouvoir et finance d'entreprise, Fayard, 1979, p. 94.

23 See, in particular, the conclusions of the Dalle report which considers that the State should grant the Renault group FF.2,500 million over the next four years.

24 Tenth Congress of the European Centre for Public Enterprise, The role of the public enterprise in the face of economic revival in Europe, Lisbon, 27-29 June 1984.

25 The signature of the enterprise contract with the Compagnie générale maritime et financière in 1979 was even preceded by the signature of a protocol agreement with the staff union representatives of the enterprise.

26 See "Les entreprises nationalisées, sous l'emprise de la rigueur", in Le Monde, 20 Nov. 1984.

### 3 - THE SECOND DECISION-MAKING LEVEL: THE PUBLIC MULTINATIONAL GROUP

Generally, public multinational enterprises have adopted group structures for organising the relations between the parent public enterprise and its subsidiaries.

How do the structures of public multinational groups appear when considered from the point of view of strategic decision-making? Are these structures conducive to a certain concentration of decision-making power in the hands of the parent enterprise? Or do they allow for a certain delegation of power to the subsidiaries? Does the influence exercised on the parent public enterprise by the shareholder State in any way cause the structure within a public multinational to differ from that within a private multinational?

It would seem, if we are to answer these questions, to be necessary that we distinguish between the two main types of organisation in the public sector:

- the state-owned holding which administers and supervises powerful public groups (as in Italy or Spain);
- the coexistence of a number of independent public enterprises which are free to adopt the group structure that they please (as in France);

#### 3.1 The structures of public groups and state holdings

Italy and Spain provide good examples of public sectors organised through state holdings which administer and supervise powerful public groups, although the way they go about this can vary widely.

##### 3.1.1 The example of the Italian Group - The Istituto di Ricostruzione Industriale

The Italian system is the older of the two as it was instituted in 1933 under the name of Istituto di Ricostruzione Industriale (IRI).

IRI in fact controls the vast majority of primarily state-owned enterprises (about 75 per cent of total assets) and the remainder is nowadays covered by two other public holdings operating on the same lines<sup>1</sup> except, however, for just a few independent public enterprises which are directly controlled by the State (railways, national printers, roads and monopolies).

(a) The "IRI system" (Formula IRI) is original in that it has a triple-tier pyramid-type decision-making structure:

- an administrative body which is the true decision-making centre of the group. This has a fairly large degree of independence to decide on how the group's public resources are to be used, limited however by the instructions issued by the Inter-Ministerial Committee on Economic Policy and by the supervisory powers of the Ministry responsible for state holdings;
- then there are sectorial subholdings which are, as often as not, created at the same time as the administrative bodies and endowed more particularly with financial powers but which have themselves, with time, become for the most part self-sufficient decision-making centres;
- and finally there are the producing companies which, although operated on mainly public funds, are run on industrial and commercial management lines in that, among other things, they are expected to make profits or - failing this - at least not to run up an annual deficit.

(b) Each year, the producing companies submit to the subholding to which they are attached an investment programme which they together discuss. These companies certainly have considerable freedom in composing the programme that they are to submit to their particular subholding, but the fact that they depend on this subholding for substantial financial contributions or technical assistance in management means that they have to lend a dutiful ear to the recommendations or instructions that it issues.

The investment programmes thus produced by the companies and subsequently approved by their sectorial subholding are then used as a reference by each administrative body in its future planning activities as it tries to reconcile the group's administrative requirements with the general instructions issued by the Government.

The specialised technical services - known as the "participation services" - of each administrative body, which keep in constant - and often informal - touch with the companies of each group and with their sectorial subholdings, play an essential role in this reconciliatory work.

(c) This system for the administration of state-owned financial interests has very definite (financial and administrative) advantages,<sup>2</sup> but it is currently going through a financial crisis.<sup>3</sup> This is partly the result of the deflationary policies implemented by the Italian Government and Central Bank to combat the world energy crisis and the strong inflationary trends. It also stems, however, from a neglect - in certain cases - of the principles of industrial and commercial management.

Under pressure from the trade unions on the one side and private industry on the other, the Italian Government has been obliged to step in and take control of enterprises in difficulty. Hence, not only has the Italian public sector absorbed a considerable number of non-profitable enterprises, sacrificing efficient management in so doing, but the argument in favour of helping a lame duck has often won out over that for industrial and commercial management. In this way, we have, of recent years, seen private shareholders deserting producing companies - and with them the entrepreneurial spirit of certain administrators of public enterprises - only to be replaced by bureaucratic tendencies.

The Italian system - which is relatively efficient during periods of growth - has shown itself to be prone to certain weaknesses in periods of crisis; some of these weaknesses have to do with a tendency to concentrate decision-making power and an insufficient definition of the relations of each group with the State.

### 3.1.2 The example of the Spanish Group - The Instituto Nacional de Industria

While still abiding by the principle of the administration of state interests by a public holding, the Spanish system, created in 1941, has a number of important characteristics peculiar to itself.

(a) The most important of these is that the entire system is based on a single public body - the Instituto Nacional de Industria (INI)<sup>4</sup> which supervises 120 companies and first and second generation subsidiaries. In Spain (as in Italy) there are, of course, enterprises directly under state control and in which the INI has no financial interest. The main examples of this are the RENFE (National Railways), the CAMPSA (National Petroleum Company) or the national banks which are subject to direct state control. But all the other public industrial and commercial enterprises in Spain come under the INI which, therefore, plays a very important role in the Spanish economy.

The group formed by INI and the companies it controls - directly or indirectly - is public, industrial and commercial. The principles according to which it is organised are, in every other respect, the same as those of all large industrial groups:

- decentralisation of responsibilities which means that decisions concerning the day-to-day or detailed management of each enterprise in the group are taken locally;
- however, the group policy is defined centrally where all the means of administration and supervision are concentrated for all of the enterprises of the group.

(b) This means that there are two different decision-making levels:

- enterprise level, firstly, at which independence of INI in decision-making is all the more reduced by virtue of the fact that the Spanish public body holds a majority share in their capital or participates in financing them. This is the situation of the Empresa Nacional de Turismo SA (ENTURSA), the Empresa Nacional Santa Barbara, the Industrias Militares SA or the Líneas Aéreas de España SA (IBERIA), all of whose capital is held by INI. This is also the case with the Sociedad Española de Automoviles de Turismo (SEAT) in which the INI holds 34.68 per cent of the shares but which has often been granted a bank guarantee or financing by the INI. This does not, however, mean that these companies have lost all managerial independence;
- and central organisational level; this second level is that at which the strategy of the Spanish group is decided. The task of setting strategic goals rests specifically with a consultative technical council which must include the Chairman and Vice-Chairman of the INI but which can otherwise be constituted according to the problems to be discussed.

This consultative technical council - which is directly answerable to the INI Governing Board and Administrative Committee with which sole decision-making power lies - is itself divided into a number of specialised councils: some perform administrative or supervisory tasks (Legal Council, Economic Council, Accounting or Financial Council) while others look to the organisational and industrial management aspects (Nuclear Energy Council, Petroleum and Gas Council, etc.).

The Technical Council, in response to a request from the Chairman of the INI, studies industrial projects, investment plans, measures for reorganising the companies of the group and all decisions of a strategic nature on which it expresses a consultative opinion.

(c) This organisation, as modern as it is in principle, does not always ensure a degree of economic efficiency comparable to that of the major private industrial groups.

In fact, INI tends towards bureaucracy as its staff become state employees and this results in delay in the necessary measures of reorganisation especially by concentrating the very many public enterprises that now exist. Indeed, there are seven such enterprises in the electrical sector, four in the petroleum sector and the steel industry and three in the automobile industry.

Hence, the Spanish system seems to be hamstrung by too low a degree of concentration of decision-making power.

What is the situation in countries the public sector of which is made up of independent public enterprises?

### 3.2 The structures of public groups and independent public enterprises

France is one case of a country that allows independent public enterprises to coexist under direct state control without placing their administration in the hands of a state holding enterprise.

Existing public groups are thus the result of a concentration policy specific to each enterprise; this policy might have been prompted by the State, but the formulation thereof was left up to the public enterprises themselves.

This has resulted in a wide variety of group structures among the various enterprises, each structure being suited to the specific needs of each enterprise. However, they can be placed under one of three main headings depending on the degree of concentration.<sup>5</sup>

### 3.2.1 The organisation of the centralised type

A first group of enterprises is characterised by centralised group structures.

3.2.1.1 This concentration may vary in form from one enterprise to another.

(a) In Air France,<sup>6</sup> for example, the structure is one of highly centralised co-ordination. It has a group secretariat headed by the General Manager of the parent company to which all subsidiaries are directly answerable. Assisted by the Co-operation and Engineering Service for which it is directly responsible and also by the General Planning and Development Office and the Audit Office, it plays an essential role in co-ordinating and motivating the group.

For example, it supervises the various committees which meet at least once a year, and are attended by the managerial staff of the parent company and of its subsidiaries and which determine the group's medium-term policy, consider the results of the previous year and the budget for the following year and ensure that the commercial policies of the parent company and its subsidiaries are consistent. It then co-ordinates its recommendations and refers them to the general administration for approval.

Such a centralised co-ordination structure would seem to meet the needs of a small group (with only nine subsidiaries), the various companies of which exercise activities which are directly complementary to those of the parent company.

(b) Another group, the Atomic Energy Commission (CEA), is also of this centralised type, but it involves an element of decision-making power decentralisation in the persons of heads of sectors of activity, known as "delegates".

These are seven in number. Each is specialised in performing one particular task or programme such as basic research, military applications or nuclear protection and health. It is they who directly head all of the subsidiaries whose activities fall within their respective purview. Although these subsidiaries enjoy a very broad margin of independence in decision-making, the delegates ensure tight control and constant supervision.

As the departments headed by each delegate can hardly be considered independent, legally separate from the others - not to mention from the parent enterprise - the subsidiaries of the group are automatically subject to centralised control.

Nevertheless, the implementation of a diversification strategy, in compliance with the industrial redistribution policy adopted after the first oil shock in 1973, has resulted in the appearance of veritable subgroups such as those of the COGEMA (supply) or the CISI (computerisation). These two subgroups in particular have reached so high a degree of coherence that they now have true independence from the parent enterprise when it comes to decision-making - as is borne out by formal presentation of the results in the annual report of the CEA Governing Board.

(c) And it is precisely this last-mentioned form of organisation resulting from the specialisation in the diversified activities of the parent enterprise which constitutes a third type of centralisation of public groups.

This is the method adopted by the SNECMA group which specialises in building aircraft engines.

The structure of the SNECMA group is, in fact, of the centralised type because the management and supervision of the subsidiaries and also the determination of the entire investment strategy of the group have been vested in a "Delegate Director of Subsidiaries and Divisions" within the parent enterprise.

However, the policy followed since 1975 has been to decentralise the management and supervision of all of the diversified activities of the group, especially in the electronics sector or in that of precision engineering, which have now become independent subsidiaries.

3.2.1.2 Regardless of the form adopted by this type of centralised structure, it has a number of constant characteristics:

(a) Firstly, the farming out of specialisations to subsidiaries is still very limited as can be appreciated by the fact that less than 33 per cent of the group's entire staff is employed by subsidiaries and this means that the total staff of all subsidiaries is less than one-third that of the parent enterprise. It is also significant to note that all of the parent enterprises mentioned continue themselves to exercise their industrial or commercial activities despite the large number of subsidiaries that some of them - as the CEA - have.

(b) Then a limited diversification involving sectors or products different from their traditional activities (catering for Air France, data processing for the CEA or electronics for the SNECMA). Here again, if the coefficient of specialisation and diversification is calculated, it produces much lower percentages than are the case with comparable private enterprises or even other public enterprises.

(c) And finally, the manifest desire on the part of the administrators of these enterprises - and by extension, of the French public authorities - to make these groups instruments for the industrial or economic development of the country. This implies a simplified line of command and a coherent administrative team.

### 3.2.2 Organisation into intermediary holdings

The second group of public enterprises is comprised by enterprises using intermediary holdings that they had or have created for the deconcentrated administration of their subsidiaries.

#### 3.2.2.1 Many examples can be given.

(a) The Entreprise minière et chimique was founded in 1967 as the result of a comprehensive concentration of public enterprises in the nitrate and potassium fertiliser production sector and in its Articles of Association it is defined as "an enterprise which controls, co-ordinates and supervises the activities of all of the companies in the group at the head of which it is placed". This means that it is a sort of holding company and that it does not - directly, at any rate - itself exercise any industrial or commercial activity.

Its role is to ensure the functional co-ordination of the group that, together with its first and second generation subsidiaries, it forms, especially with respect to planning the group's activities, preparing the annual budget, implementing the group policy and administering the human resources and especially the senior managerial staff of the parent enterprise.

This definition of the role of the parent enterprise as a holding company authorises it to share responsibility for administering and supervising the subsidiaries within four main groups according to the various activities of the group and at the head of which have been placed intermediary holdings.

- Potassium involving the Mines domaniales des potasses and the Société commerciale des potasses in Alsace;
- Chemicals involving nitrogen and chemical products;
- Animal fodder with Sanders;
- Service companies involving mainly PEC Engineering.

Each of these intermediary holdings is 100 per cent owned by the parent enterprise which means that their governing bodies and the responsibilities delegated to them are under constant supervision.

(b) The SNCF (railways) and the CGMF (shipping) are two transport groups whose structure is similar and based on intermediary holdings.

The parent SNCF<sup>7</sup> enterprise has direct control over only about one-third of its first and second generation subsidiaries. The administration of most of the companies in its group is exercised by two relay companies - the SCETA (auxiliary transport) and STEF (refrigerated transport and storage).

The SCETA (Société de contrôle et d'exploitation des transports auxiliaires) is itself subdivided into branches of activity in accordance with its various functions: haulage, catering, tourism, equipment hire, etc. There are eight functions in all.

The administration of each function is, in principle, entrusted to the Chairman of the largest subsidiary, e.g. Bourgey Montreuil for specialised transport and equipment, Calberson for goods transport, or Frantour for tourism and catering.

The basic task of the last-mentioned is to motivate and co-ordinate the activities of all companies in the sector and to encourage a sort of group policy. However, in practice, its powers are limited to the supervision of investment projects or to ensuring that the companies under its responsibility remain profitable, for it has no decision-making power and has to comply with the general goals set both by the central SNCF administration and the SCETA holding company.

The CGMF group is virtually organised on the lines of a private enterprise. There is the CGM (Compagnie générale maritime) backed by two other highly specialised companies - the SNCM (Corsican public service company) and the SFMP (covering all holdings other than shipping).

In fact, the specific organisation of this group results from the circumstances in which it was created. It stems from the merger of two mixed economy companies in the merchant shipping sector. The CGMF first took shape in 1973 as a general shipping company comprising the two companies, CGT<sup>8</sup> and MM<sup>9</sup> and a common subsidiary, the CGM et Cie or CGMC. In 1976, the two companies were effectively merged into the CGM and a financial holding company was created as an umbrella organisation to cover all of the companies in the group and ensure its coherent administration.

3.2.2.2 The example of these three groups of public enterprises gives a clear impression of the characteristics of these dispersed groups, the administration of which is vested in a number of intermediary holdings.

As a rule, these are large groups, both by virtue of the number of enterprises involved and the variety of the activities that they perform.

They are heavily specialised and diversified and the staff of the subsidiaries is equivalent to over 33 per cent of total staff, which means that the staff of the subsidiaries accounts for between one-third and one-half of that of the enterprise as a whole and thus confirms an advanced state of specialisation and diversification.

This type of structure is a recent development and nearly always results from a stage-by-stage series of eventful developments. The creation of intermediary holdings has sometimes been the unintended outcome but never the final goal.

It seems to cater to a desire to escape from structures considered to be unsuited to the requirements of efficient and profitable management of such far-reaching and complex activities.

### 3.2.3 Organisation into independent sectors

The last category of public groups is that of those public enterprises, the specialisation and diversification of which is so advanced as to necessitate the constitution of highly developed co-ordination structures.

3.2.3.1 These structures are organised from independent sectors. Each sector corresponds to a market of the parent enterprise. In the case of Renault, for example, there are the automobile, industrial vehicles, finance, and other markets.



It involves, on the one hand, a senior officer known generally as the "sectorial delegate" and who is either the head of an independent department of the parent enterprise or the managing director of a subsidiary 100 per cent owned by it and, on the other, a number of industrial, commercial or administrative companies, all of which are first or second generation subsidiaries of the parent enterprise. In other words, on the one hand, there is a production element involving an important strategic decision-making centre and, on the other, the operational units.

Essentially, this system of organisation can be expected to offer two kinds of advantage.

Firstly, it can regroup first and second generation subsidiaries more coherently and hence economically, more profitably. The relevant criterion here is neither financial (financial interests) nor legal (company structure, status). It is economic and depends on the market as defined by the products traded thereon. This provides the parent enterprise with the possibility of determining policy right down the line in order to control all stages in the manufacture and marketing of a product. Public groups are all the more keen on adopting this type of down-the-line policy because, in this way, they can often concentrate a considerable mass of means of production and because they are the instruments of the industrial policies of the governments of the country.

But the main advantage to be derived from a sector-by-sector system of organisation is that the strategic decision-making power can be passed down the line from the general administration of the group to the persons at the head of each sector. Indeed, the sectorial delegate is the decision-making authority not only for the first and second generation subsidiaries placed in his charge and whose management, along with that of the entire sector, he supervises by means of monthly reports from each company, but also within the parent enterprise where he is consulted on all matters concerning his sector.

At a pinch, responsibility for the administration of the group - and especially for the determination of strategic goals - is taken from the relevant bodies to be vested in a management committee as is the case with Renault. This committee, chaired by the Managing Director of the parent enterprise, is composed of the delegates from each sector and the heads of the main functional departments (administrative, legal, financial, commercial, etc.).

This means that the parent enterprise can concentrate on functional co-ordination work and especially on seeking the best distribution of resources among the sectors and, at the same time, among the companies of the group.

3.2.3.2 Apart from the case of Renault or of CDF-Chimie (a chemical subsidiary of the French Coal Board), the Elf Aquitaine group provides an excellent example of this type of organisation into independent sectors and of the strategic decision-making process which this creates.<sup>10</sup>

Its central organisation is based on three general sectorial administrations, each of which is subdivided into subsectors:

- the production sector
- the refining-distribution sector
- the chemical sector, which is again subdivided into:
  - organic chemistry, health and hygiene, habitat.

Each sector or subsector of activity is placed under the authority of a managing director. Strategic decisions, however, are generally taken by a committee that he chairs (and which may be the Board of Directors of a holding subsidiary). This committee includes not only the heads of each sector of activity but also the heads of the various central administrations concerned: financial administration, geographic administration, economic resources administration, as well as representatives of other sectors that may be involved.

These sectorial committees, which meet periodically, receive investment proposals which they consider in the light of their strategic interests and the financial resources available and which they then refer, with their considered positive or negative opinion, to the general administration of the parent enterprise for a final decision.

If such a decision falls within its purview, the management of the parent enterprise then takes it or, if it does not, it refers it to the board of directors as described above.<sup>11</sup>

Obviously, the closer the decision to be taken is to group strategy as defined by a mid-term plan and implemented each year through the group's budget, the more rapid will that decision be. Possibly, if the investment proposed is minimal, the inclusion of a corresponding amount in the budget can be taken as authorisation for the expenditure.

It may thus be seen that the organisation of the Elf Aquitaine group is based on a very sophisticated command structure which was made necessary by the need to co-ordinate and supervise more than 400 companies performing an endlessly varied variety of tasks. In more general terms, it would seem that in countries where the public sectors have not been organised into state holdings, the structure of the groups depends on the degree of specialisation and diversification within the group. It is hence significant to note that the coefficient of specialisation and diversification are lower in very centralised systems of control (as Air France) and that, conversely, a very high coefficient<sup>12</sup> means that extremely sophisticated co-ordination structures, based on a delegation of responsibilities, have to be adopted.

Hence, the structural organisation of public multinational groups can vary greatly depending whether the public sector is placed under a number of state holding companies or whether it comprises a number of independent public enterprises. Furthermore, the degree of centralisation of decision-making power is greater in the former case than in the latter.

However, in both cases, the constraints implied by the organisation and operation of groups involving an ever greater number of enterprises has led to a move towards a certain decentralisation of the strategic decision-making power of the parent enterprise out to the subsidiaries or intermediary holdings.

But this decentralisation of strategic decision-making power still has some way to go. It does not, therefore, result in the placing of this power entirely in the hands of the various companies in any public group for the single administration of the group still imposes the necessary limitations on the independence of the subsidiaries.

#### Notes

<sup>1</sup> ENI (hydrocarbons); EFIM (manufacturing industries).

<sup>2</sup> Cf. A.G. Cohen: "Les participations publiques en Italie et la formule IRI", in Droit social, No. 5, 1970, pp. 203 et seq.

<sup>3</sup> See especially D. Cavaliere: "La crise de système des participations d'Etat" in Annales de l'économie publique, sociale et coopérative, No. 4, Oct.-Dec. 1977, pp. 403 et seq.

<sup>4</sup> See especially A.G. Delion: "L'Institut national d'industrie et les entreprises publiques espagnoles" in Actualité juridique du droit administratif, 1970, pp. 5 et seq.

<sup>5</sup> The following analysis is based on the results of a study of ten French public schools by pupils of the National Business School, which study contains a calculation of the coefficients of specialisation and diversification. The conclusions of this study appear in CNME No. 82, first quarter of 1979, pp. 23 et seq.

<sup>6</sup> With reference to the Air France group, see L. Rapp: "Transport aérien et structure du groupe. Le groupe publique Air France" in Revue française de droit aérien, No. 2, 1982.

<sup>7</sup> Concerning the structure of the SNCF group, see L. Rapp: "Déconcentration, holdings intermédiaires et structure juridique du groupe publique SNCF" in Revue transports, June-July 1982, No. 274, and L. Rapp: "Un nouveau statut du groupe SNCF" in Revue transports, June 1983, No. 248.

<sup>8</sup> Compagnie générale transatlantique.

<sup>9</sup> Messageries maritimes.

<sup>10</sup> See, in particular, the many examples given by J. Pavard in La politique financière des entreprises, Banque, 1978.

<sup>11</sup> See Chapter 2 above - "First decision-making level: The parent public enterprise".

<sup>12</sup> The specialisation and diversification coefficient for Elf Aquitaine in terms of staff according to the above-mentioned study is 100 per cent.

#### 4 - THE THIRD DECISION-MAKING LEVEL: FIRST AND SECOND GENERATION SUBSIDIARIES, SUBJECT TO FOREIGN LAW

The first and second generation subsidiaries of public or private enterprises are legally distinct bodies from their parent enterprises. They have their own organs and capital stock. They concentrate on operating and developing quite independently.

Their legal independence is all the more apparent if the parent company is a public enterprise and if they themselves are located abroad. Indeed, while the legal status of the parent enterprise is characterised by a number of peculiarities, especially where the control exercised over their administration and strategic decisions is concerned, its first and second generation subsidiaries are privatised in the extreme and the fact that those located abroad exist under a different legal system guarantees them a fairly high degree of decision-making independence.

However, some limits are imposed on this independence, especially where decision-making is concerned.

These limits stem, to a considerable degree, from the structures of the groups to which they belong. But, as they are first or second generation subsidiaries under foreign law, they are also dependent to an extent on the attitude of the host country. Does the host country not tend to intervene more energetically simply because the company happens to be a subsidiary of a public enterprise, that is to say an enterprise in which another State is a majority shareholder? If this is so, what residual independence can be left for the foreign subsidiary thus sandwiched between its parent enterprise and the host country?

Such are the questions that we wished to deal with more closely in studying this third level of decision-making. In answering them, it was necessary:

- firstly, to find a method of studying the decision-making independence of the first and second generation subsidiaries of public enterprises,
- and then to apply this method of study to a sample - considered representative - of the sort of enterprises that were suitable for examination by the author.

#### 4.1 The decision-making independence of the subsidiaries of public enterprises and the quest for a method of study

Studying the decision-making independence of first and second generation subsidiaries raises difficult methodological problems.<sup>1</sup> These problems are all the more difficult when the subsidiaries are those of public enterprises and there are no existing studies of these in particular to which we could refer.

##### 4.1.1 The problems involved in studying the independence of the subsidiaries of public enterprises

The methodological problems have various causes related especially to the characteristics of the decision-making process within multinational enterprises as well as to the special nature of public multinational enterprises themselves.

4.1.1.1 To start with, the strategic decision-making process is generally informal.

There are, of course, strategic decision-making procedures - at times codified - in the Articles of Association of the subsidiaries or the parent enterprises. For example, the Articles of the SEREPI,<sup>2</sup> the capital of which is held in equal proportions by the French public Elf Aquitaine group and the Tunisian ETAP,<sup>3</sup> provide for a system of joint signatures on all strategic decisions by the Managing Director as appointed by the Tunisian State and

the Assistant Managing Director who represents more especially the interests of the French Elf Aquitaine group within the administration of the company.

However, such provisions are not always applied and the procedure actually followed is often a far remove from what appears in the articles.

In the case of SEREPT, a distinction seems to have been made between commitments, on the one hand, and payments on the other, responsibility being assumed alternately for each of these functions by the two senior officers of the company.

It is consequently extremely hard to understand the strategic decision-making process without a precise and virtually inside knowledge of each enterprise. This means that account has to be taken, not only of the procedures laid down in the Articles or normally followed, but also of the relations between the different bodies of the enterprise, their power balance, the struggles being waged within them for influence, the personalities of the different people in high places and the effective role that they play.

4.1.1.2 It is all the more advisable to take precautions in view of the fact that the strategic decision-making process in public multinational enterprises evolves rapidly, as indeed it does in private multinational enterprises.

(a) It often evolves according to the type of strategic decision being considered. Here, it is clear that in public multinational enterprises decisions concerning employment (engaging staff, wage setting, collective bargaining) permit a greater degree of decentralisation of decision-making power than is the case with financial decisions (investments, budget, dividends policy, loans, etc.). We shall be considering some examples shortly, with special reference to Tunisian enterprises which are subsidiaries of Italian public multinational enterprises.

However, where employment-related decisions are concerned, one might well ask whether texts relating specifically to public enterprises - such as the very recent French Public Sector Democratisation Act of 26 July 1983 - might not affect decision-making structures.

The purpose of this Act is to give the employees of French public enterprises - many of which are multinational - a say in decisions concerning the future of their enterprise. With this in view, it reserves one-third of the seats on governing or supervisory bodies for workers' representatives, elected directly by the staff.

The Act applies not only to leading public enterprises in which the State holds shares directly, but also to a large number of their first and second generation subsidiaries. In these subsidiaries, provision is made for two different types of election. One of these is for electing workers' representatives to the governing or supervisory body of the parent public enterprise.

The question that here arises is whether the presence of workers' representatives on the governing or supervisory body of the parent public enterprise might not result in a certain decentralisation of the decisions concerning the staff employment policies of each of the first or second generation subsidiaries.

(b) Then there are other factors that can make the strategic decision-making process of public multinational enterprises evolve very fast.

These factors are the same as those observed in private multinational enterprises,<sup>4</sup> the difference being that in the public enterprises they assume special importance because of the organisational or administrative problems specific to this type of enterprise.

The geographical remoteness of a subsidiary from the parent public enterprise, for example, can greatly contribute to its decision-making independence. But this factor, which is not peculiar to public multinational enterprises, plays all the more important a role when the organisational structure of enterprises in the public sector is bureaucratic because of a general line of command which subjects them to a strict hierarchy of control. This remoteness from the "system" can (contrary to the case of private enterprises) benefit especially foreign subsidiaries which thus enjoy a greater degree of self-determination.

#### 4.1.2 The selected method

These difficulties in analysing the strategic decision-making process of public multinational enterprises called for the application of an original method, differing from quantitative evaluation methods as traditionally used to measure the decision-making independence that a subsidiary has of its parent enterprise.<sup>5</sup>

These quantitative evaluation methods are, in fact, based on a compilation of the answers provided by the administrators of the various companies studied to a model questionnaire submitted to them. The compilation then leads to the establishment of a number of indices which measure the degree of decentralisation of the subsidiary in its relations with the parent company in any particular area of decision-making.

Quite apart from the shortcomings such quantitative evaluation methods may have by virtue of the arbitrary choices that they involve and of the fact that, in general, any quantification of an informal and evolutive process has its limits, these methods did not appear to us to be sufficiently precise and accurate for identifying the realities of the administrative self-sufficiency of public multinational enterprises and the peculiarities of the strategic decision-making process within public groups.

A different method has, therefore, been selected for this study.

It is based on a thorough analysis of what we consider a representative sample of first and second generation subsidiaries of public multinational enterprises that the author had the possibility of examining. The analysis was based on discussions with the managers as well as - wherever possible - on records, kindly made available to us, of typical strategic decisions (investment, budget, staff engagement, job creation, take-overs, setting up subsidiaries, shutdowns, etc.).

Various criteria were taken as a basis for the choice of sample establishments to be studied, the aim being to study only those companies which were particularly revealing of the scope of the controlling powers exercised by a public multinational enterprise over its subsidiaries.

4.1.2.1 First criterion: the first and second generation subsidiaries had to be subject to foreign law.

This first criterion was justified by the choice of the subject - the study of the decision-making process of public multinational enterprises - but also by the fact that first and second generation subsidiaries under foreign law pose for their parent enterprises - whether public or private - specific control problems which are more delicate to solve than those of subsidiaries governed by domestic law.<sup>6</sup> Hence, it is easier - by taking such subsidiaries - for us to appreciate the ability of the parent enterprise to centralise decisions and thus the true extent of its effort to concentrate decision-making power.

Indeed, controlling subsidiaries under foreign law makes it necessary for the parent enterprise to adopt organisational solutions such as the establishment of a process of subsidiary-parent co-operation or functional solutions such as to the introduction of appropriate human resource management policies (export of managerial staff, exchange of staff between subsidiary and parent). Such solutions form the very core of the essential problems raised in mastering the strategic decision-making process in large enterprises.

Nevertheless, if the study was to continue being meaningful and if comparisons were to be made, the legal, economic and socio-cultural context had to be the same, i.e. we had to take different companies set up in the same country. Tunisia was chosen particularly because of its open attitude to foreign investment.

4.1.2.2 Second criterion: the first and second generation subsidiaries had to be minority holdings, i.e. the parent public enterprise has to hold at most one-half of the capital stock or less.

Here again, in choosing this second criterion we were guided by our desire to consider such extreme cases of subsidiaries which the parent public enterprises experience real trouble in controlling.

But quite apart from this first reason, we were prompted by a wish to consider an ever-more-present practice in international economic relations and that is the tendency of the host country to insist that local interests hold capital shares - often the majority - in the subsidiaries under local law of foreign enterprises. In extreme cases, the parent enterprise retains nothing more than consultant shareholder status whose sole interest in the performance of a company under local law is a minority holding.

What influence can a parent enterprise which does not hold the majority of the capital stock exercise over the strategic decisions of its subsidiary? Can it control these decisions despite this? Do the representatives of local interests oppose such control?

4.1.2.3 Finally, the last criterion: the first and second generation subsidiaries had to be those of public enterprises which themselves differed:

- according to their sectors of activity;
- according to the degree of cohesion and internationalisation of the group that they head;
- according to the long standing of their foreign subsidiaries, especially in Tunisia;
- according to their national origins and their belonging to different public finance administration systems.

The sample considered was finalised with the help of the Franco-Tunisian Chamber of Commerce. It included some 15 companies under Tunisian law, which fell into the following three categories:

- in the main, Tunisian subsidiaries of public multinational enterprises (Italian and French) and some private multinationals (for comparison purposes);
- some Tunisian subsidiaries of public enterprises from other developing countries (Algerian public enterprises, especially);
- Tunisian public enterprises that themselves have subsidiaries abroad.

The latter two categories were selected to avoid considering only the cases of enterprises from industrialised countries with subsidiaries in developing countries.

In most cases, the information on these companies was obtained directly as mentioned above. In some cases, however, where this was not possible, the information was drawn from different sources made available to us.

#### 4.2 The decision-making independence of public enterprises and the presentation of what may be considered a representative sample

The method used has resulted in a monograph on each of the companies considered. However, not all of these monographs necessarily relate to subsidiaries of public multinational enterprises for the reasons given above. Moreover, they overlap and allow for a definition of categories of subsidiaries of public multinational enterprises according to the degree of independence of decision-making that they enjoy. Finally, some of the information that we obtained on these companies is confidential and cannot be disclosed.

For this reason, the sample submitted concerns only five companies. These five companies are all of interest for the following three reasons:

- they are all subsidiaries or former subsidiaries under Tunisian law of foreign public multinational enterprises;
- they all allowed us direct access to the necessary information;

- they permit us to illustrate five different forms of control that a foreign public multinational enterprise can exercise over a subsidiary under local law.

These forms vary from the company, the parent enterprise of which holds no further financial interest but which controls it from without by means of a management contract (the case of the SITT, Société immobilière du tourisme tunisien) to that in which the parent enterprise is the majority shareholder and local interests minority shareholders (SERGAZ), passing through companies in which the parent public enterprise holds a simple financial holding (Tunis Air), a minority holding with veto (IUB) or exactly 50 per cent of the shares (SEREPT).

It should be mentioned that these five examples are given merely to illustrate the comments proffered in the conclusion as food for thought concerning a descriptive model of the strategic decision-making process of public multinational enterprises.

#### 4.2.1 The Tunisian Société immobilière de tourisme

The first company, the SITT, is certainly the strangest of the lot. It is outstanding in that none of its capital stock is in foreign hands. Its sole shareholder is the Société tunisienne de banque which directly or indirectly holds all of the shares.

This special situation is explained by the fact that SITT administers the Hôtel Africa Méridien de Tunis which it owns. This hotel was built on land belonging to the STB, which donated it, and the construction was financed by the Tunisian Bank.

However, although its capital is 100 per cent Tunisian, the SITT is tied to the French Méridiens Hotels Group - and through it to the French public group, Air France, by a franchise contract.

Historically, the bond between the SITT and Air France started in the form of an investment by Hôtel France International, a subsidiary of the hotel chain belonging to the French national airline, in the capital of the SITT. Then, when the Hôtels Méridiens was substituted for Hôtel France International, this investment was replaced by a franchise contract in keeping with the policy being pursued by Hôtels Méridiens in its foreign establishments.

The provisions of this franchise contract - and the application thereof by the two companies - are such that the SITT - a company under Tunisian law, the capital and staff of which are entirely Tunisian - is subject to the tight and constant control of the subsidiary of the foreign public enterprise. Indeed, the only decision-making freedom enjoyed by the SITT concerns day-to-day administration and the more important - strategic - decisions [are subject to] agreement between the sole shareholder: STB and the franchiser: the Hôtels Méridiens group.

A typical example of this is the way the SITT annual budget is prepared, adopted and implemented.

The first step in preparing the SITT budget is to define the preliminary goals. This is done by the various operational administrations of the company under the aegis of the Managing Director. These preliminary goals are defined in the light of forecasts concerning room occupancy, number of guests, estimated receipts per room, etc. This makes it possible to set out a buying policy for the coming year.

These goals are then sent to Méridiens Hôtels "to be checked and approved."<sup>7</sup> There, they are thoroughly analysed and, if necessary, suggestions are made to the SITT.

Then a draft budget is prepared "taking account of the recommendations made by Hôtels Méridiens".<sup>8</sup>

Finally, it is referred to the Board of Directors of SITT for adoption, the Board comprising representatives of the Société tunisienne de banque.



Three checks are run on the way the budget is implemented - one by the General Administration of the SITT, one by the Société tunisienne de banque and above all by Méridiens Hôtels.

The last-mentioned check takes the form of monthly reports sent by the SITT and which describe the main results obtained, gives explanations of any variations from the set figures and describes plans for the next three months.

Only within the limits set in the annual budget and subject to this system of checks are the administrators of SITT granted some measure of initiative.

Finally, it would seem that the Managing Director of SITT plays a key role in the strategic decision-making process of the company. He is the true kingpin and he has constantly to juggle the wishes of his main shareholder - the STB - the recommendations of his franchiser - the SHM - and the operational requirements of the company that he heads - the SITT - with special attention being paid to managing his staff.

#### 4.2.2 Tunis Air

The second company is Tunis Air. This is a public transport enterprise which, when created in 1948, received considerable financial backing from Air France, which may thus be considered its parent enterprise.

Today, this financial holding has shrunk to a mere 6 per cent of the company's share capital, most of which is held by the Tunisian Government.

What influence does Air France, a foreign public enterprise now holding a minority share, have over the strategic decisions of Tunis Air that used to be its subsidiary?

As Air France is a shareholder, it may appoint a delegate to represent it on the Board, but this representative has no special powers over and above those exercised by the other directors appointed by the Tunisian Government.

His main role, on behalf of Air France, is to study the annual balance sheet and company report of Tunis Air. This task may give rise to certain comments made by Air France, in its capacity as shareholder, to the administrators of Tunis Air.

However, the fact that Tunis Air is itself a public enterprise with a very extensive system of surveillance and interpretation,<sup>9</sup> means that the true strategic decision-making power lies with the Minister responsible for the Tunisian flag carrier and possibly with the Government itself.

Indeed, a typical strategic decision-making process by Tunis Air may be described as follows.

All draft decisions are preceded by a preliminary study phase effected by the operational administrations of the enterprise which are concerned thereby. (There are ten such administrations organised around a general affairs administration.)

Then they are considered by a Committee of Managers made up of the heads of the ten operational divisions of the enterprise and chaired by the Managing Director. This body meets, on average, once a month.

Once approved, the file is referred to the Board of Directors for adoption.

However, the decision taken by the Board of Directors is nearly always subject to prior approval. This means that it is not enforceable on its own and does not become so unless approved by the appropriate ministry or the Government.

In practice, the supervisory authority takes quite a considerable hand in managing the company. An example of this was the decision imposed on Tunis Air as to what type of aircraft to buy, a decision which left the directors no room for protest despite the fact

that the plane they were obliged to buy was not really the model best suited to the requirements of the Tunisian company or to its financial capabilities.

As a reaction to this operation, the current directors of the Tunisian company are trying to come to terms with the State. A fleet plan has been drawn up by an ad hoc committee comprising representatives of all the operational administrations of the enterprise. This plan was submitted, for consultation, to a general assembly of senior staff of the company. Once it had been approved by the committee of managers, it was adopted by the Board of Directors of Tunis Air.

This decision is soon to be submitted to the Tunisian public authorities for approval and this approval will probably be forthcoming, given the current financial state of the Tunisian company.

It would thus seem that the influence that Air France, the erstwhile parent public enterprise and current holder of a minority share, can exercise over the strategic decisions of Tunis Air is very limited. At the very most, it can express a point of view, through the Director who represents it, at Board meetings. And here it should not be forgotten that not all decisions fall within the jurisdiction of the Board or are even submitted to it.

In fact, the financial involvement that Air France still has in Tunis Air is justified by the historical ties between the two airlines which exist to this day in the form of technical assistance afforded by Air France to Tunis Air under the terms of commercial co-operation agreements backed by an interline account between the two companies. In the final analysis, the technical assistance rendered Tunis Air by Air France is nowadays probably the best way in which Air France can influence and participate in the decision-making process of its one-time subsidiary.

#### 4.2.3 The Union internationale des Banques

The third company to have been studied was the Union internationale des Banques (UIB). This is a finance institution that was created when Tunisia acceded to independence from what had previously been the Tunisian subsidiary of the Crédit Lyonnais, a French public enterprise.

The local branch of the Crédit Lyonnais actually started progressively to be nationalised in 1956, but the parent enterprise continued to hold a large share in its capital. The extent of this financial involvement has for the longest time justified not only the presence of representatives on the Board of the UIB but also the appointment, by the French bank, of an Assistant General Manager who plays an active role in administration and has strategic decision-making power within the company.

Since 1982, however, the holding of the Crédit Lyonnais in the UIB has dropped to 23 per cent of the capital stock after a capital increase to which the parent enterprise did not subscribe. But the Crédit Lyonnais adopted another - and rather original - way of making its presence felt within the UIB and of having its say in strategic decision-making.

This takes the form of a technical adviser who is also the Managing Director of a [new] local branch of the Crédit Lyonnais which was opened in 1982. The present technical adviser has considerable experience of the Arab countries and is not the same person as the Crédit Lyonnais representative on the Board of Directors. These two people are, however, constantly in touch.

His functions within the UIB make him all the more effective because he falls outside the hierarchy, which means that he enjoys considerable freedom and flexibility in his activities.

The strategic decision-making process in the UIB may be described as follows:

##### (a) Decisions concerning the granting of loans

These are first examined by the agency when the loan application file is opened. This file is then referred to the loans department for a technical opinion.

The application then goes to the loans committee, which comprises various UIB financial experts and is jointly chaired by the Assistant General Manager and the Crédit Lyonnais technical adviser. It meets once a week.

At these meetings, one of three things may happen:

- the Assistant Managing Director may decide to grant a loan;
- more information may be requested;
- the file may be passed to the Board of Directors if the decision falls within its purview.

If there are any particular difficulties, the Managing Director of the UIB may be asked to arbitrate; in arbitrating, the Managing Director may consult the technical adviser.

#### (b) Decisions concerning financial administration

These decisions generally lie with the Board of Directors and, in practice, they frequently lie with the Managing Director of the UIB. He tends to seek the opinion of the Crédit Lyonnais technical adviser, especially in the case of questions concerning the agency's international strategy on which the present technical adviser is particularly qualified to advise the Managing Director.

The "technical adviser" method adopted by the Crédit Lyonnais hence seems to depend to a considerable extent on the "human factor" and indeed very much on the personality of the current incumbent and especially on his human touch and his experience in similar posts held in other countries of the region.

#### 4.2.4 The Tunisian Petroleum Research and Exploitation Company - SEREPT <sup>10</sup>

The SEREPT is the fourth example of a subsidiary under local law of a foreign public enterprise. Actually, it is a joint subsidiary of the Tunisian ETAP<sup>11</sup> group and the French public Elf Aquitaine group.

Its capital is held fifty-fifty by the Tunisian and the French groups.

This situation is the result of a progressive process of "Tunisification" of the capital of SEREPT. This process started when the company was founded in 1948 as, at that time, the capital assets of the company were already comprised 23 per cent of Tunisian capital and 77 per cent of French. In 1978, this was revised and the assets were shared fifty-fifty. The process will probably not stop there as, in a few years, ETAP is to gain majority control.

How, in the present situation where capital is equally held, can the parent enterprise, Elf Aquitaine, influence the strategic decisions adopted by its Tunisian subsidiary?

The system adopted is based on a strict sharing of seats on the Board and of managerial functions.

The Board of Directors of SEREPT comprises 12 members, six of whom represent ETAP (Tunisia) and six Elf Aquitaine (France).<sup>12</sup> The actual managerial functions are shared between a Managing Director appointed by the Tunisian Government and an Assistant Managing Director appointed by the Directors who themselves represent the Elf Aquitaine group.

These two officers have equivalent powers as stipulated in the Articles of Association of the SEREPT, which Articles also provide for a system of joint decision-making on all strategic matters.

In practice, this sharing of responsibilities is based on a distinction made between commitment operations and payment operations. The Assistant Managing Director may oppose

payment operations entered into by the Managing Director and vice versa. This power alternates between the two as they can both exercise commitment and payment authority at the same time.

However, when it comes down to the internal organisation of the company, these powers are not shared as equally as all that.

- At the administrative level, the staff is 100 per cent Tunisian. It operates under the joint authority of the Tunisian Managing Director and the French Assistant Managing Director.
- At the technical level, a distinction may be made between prospecting and research activities, on the one hand, and operational and production activities, on the other.

Prospecting and research activities are 100 per cent financed by the Elf Aquitaine group and require the use of French technical staff. Hence the prospecting and research administration comprises about 40 per cent French staff and 60 per cent Tunisian.

The operational and production activities, on the other hand, are financed equally by both groups, Tunisian and French. Even so, the operational and production administration has only two or three Elf Aquitaine employees out of a total of 250 persons.

Here, therefore, we have the beginning of a process of "Tunisification" of the company which will, eventually, be 100 per cent but which, at present, has reached a stage where strategic decision-making power is shared about equally between the two main shareholders, except in the case of prospecting and research activities where Elf Aquitaine is still very active.

#### 4.2.5 SERGAZ - The utilities company

The last case to be mentioned is that of SERGAZ SA, a company that operates the trans-Tunisian gas pipeline. The capital of this company is currently controlled by the Italian public group, ENI (Ente Nazionale di Idrocarburi), which holds 66 per cent of the shares through its subholding, SNAM, which is responsible for all activities involving natural gas. The remaining 34 per cent are held by the Tunisian petroleum group, ETAP.

This company was established in 1980 pursuant to agreements concluded between the Italian ENI group and the Tunisian Government.<sup>13</sup> The purpose of the company is to operate the trans-Tunisian gas pipeline, built to carry Algerian gas purchased by ENI from SONATRACH<sup>14</sup> from Algeria to Italy.

As is quite proper, the Italians occupy the majority of seats on the Board of Directors of SERGAZ, but Tunisian interests are, nevertheless, very vigorously defended by an ETAP representative appointed by the Tunisian Government - who, moreover, is an ex-Minister - and also by various other Tunisian individuals, including the Managing Director, who hold shares in SERGAZ.

Indeed, the company is administered by a Tunisian Managing Director who, although proposed by the Tunisian Government, is appointed by the Board of Directors of SERGAZ. He is seconded by an Italian Assistant Managing Director designated by the ENI group.

In principle, the Managing Director and the Assistant Managing Director of SERGAZ have equal decision-making powers.

Italian and Tunisian interests are equally represented all the way down the line within the company as there are two incumbents at each decision-making level and for each technical post, one Tunisian and one Italian. Nevertheless, taken overall, the Tunisian staff of SERGAZ is considerably larger than the Italian staff, there being 110 Tunisians to 30 Italians.

This arrangement results in a strategic decision-making process that, depending on the level of the decisions to be made, can be described as follows:

- Decisions not requiring action by the general administration (e.g. engaging staff) are taken jointly by the Tunisian and the Italian incumbent.
- Decisions directly involving the general administration - but which do not require action by the Board of Directors (e.g. appointing a departmental head) are taken jointly by the Managing Director and the Assistant Managing Director of SERGAZ, the decisions of the one necessarily having to be countersigned by the other.
- Finally, decisions which fall within the purview of the Board of Directors of SERGAZ (e.g. creating a new post) require action by the SNAM in the persons of the directors representing it on the Board.

Hence, in the strategic decision-making process of the SERGAZ, we have a combination, on the one hand, of influence exerted by the SNAM and hence by the ENI which results from the majority share that they hold in the capital stock of the company and, on the other, of a certain control by Tunisian interests through their involvement in the making of a large number of strategic decisions.

\*

\*

\*

Each of the five preceding monographs illustrates one of the forms of control that a parent public enterprise can exercise over the strategic decisions of a subsidiary under foreign law in which it has a minority holding.

- The SITT illustrates a case of a second generation subsidiary controlled from outside and without any participation in its capital stock or administrative bodies.
- Tunis Air is an example of a company the former parent enterprise of which still holds a minority share but does not any longer influence strategic decision-making except through a representative on the Board, which means that all of the decisions not lying with the Board escape its control. This is all the more so given that the company is kept under very close surveillance by the Tunisian Government.
- The UIB offers a very original situation in that of the outside technical adviser through whom the parent enterprise can follow all of the strategic decisions made by the subsidiary and, on occasions, exercise some influence over them.
- SEREPT is a joint company and this partnership is apparent in that all decisions except those concerning prospecting and research are made jointly, with an equal sharing of influence between the parent enterprise and its Tunisian partner.
- Finally, there is the SERGAZ which demonstrates that a majority share in the capital of the subsidiary under local law does not necessarily guarantee the parent public enterprise complete control over all the subsidiary's strategic decisions.

#### Notes

<sup>1</sup> See especially M. Ghertmann: Decision-making in multinational enterprises: Concepts and research approaches, op. cit.

<sup>2</sup> The Tunisian Petroleum Research and Exploitation Company, see section 4.2.4.

<sup>3</sup> Tunisian Oil Corporation, see section 4.2.4.

<sup>4</sup> See G. Garnier, G. Clause and J. Boudeville: "How far does the decision-making self-sufficiency of subsidiaries extend? The case of French subsidiaries of US multinationals", in: Revue française de gestion, Jan.-Feb. 1978, p. 42.

<sup>5</sup> For an illustration of these methods, see Garnier et al., *ibid.*

<sup>6</sup> See especially H.R. De Bodinat: "Control of foreign subsidiaries", in: Revue française de gestion, Jan.-Feb. 1977, pp. 64 et seq.

<sup>7</sup> According to the administrators of SITT.

<sup>8</sup> According to the administrators of SITT.

<sup>9</sup> See section 2.1.3.1.

<sup>10</sup> The Tunisian Petroleum Research and Exploitation Company.

<sup>11</sup> Tunisian Oil Corporation.

<sup>12</sup> The Board meets quarterly, in principle, alternating between Tunisia and France.

<sup>13</sup> Law of 7 December 1977, Tunisian Official Gazette, 9-13 Dec. 1977, p. 3373.

<sup>14</sup> Algerian National Hydrocarbon Corporation.

## 5 - CONCLUSION: DESCRIPTION OF A TYPICAL STRATEGIC DECISION-MAKING PROCESS FOR PUBLIC MULTINATIONAL COMPANIES

The analysis of each of the three decision-making levels referred to above demonstrates the essential role played by four sets of participants in the strategic decision-making process of public multinational enterprises:

- Firstly, the parent public enterprise, which acts through its various bodies, viz. its "legislative" (Board of Directors) and its "executive" (the General Administration).
- Next, the shareholder State which intervenes either in the form of supervisory bodies or that of public bodies for the administration of public financial participation.
- Thirdly come the first and second generation subsidiaries, the independence of decision of which depends on the composition of their capital stock, their geographical location and the structure of the group to which they belong.
- And then, finally, there is the host country which can influence the strategic decisions adopted by first or second generation subsidiaries which are subject to its legislation and, in this way, also the public group itself, by imposing upon them a legal status and measures which suit its interests.

How do the influences exerted by each of these participants on the strategic decisions of public multinational enterprises combine to form the decision-making process?

In replying to this question, it would seem necessary to distinguish between three different phases of the decision-making process:

- the initiative phase
- the adoption phase
- the implementation phase.

### 5.1 The initiative phase

This is an essential phase as it is here that the strategic decision is planned.

5.1.1 As the study has shown, the initiative for strategic decisions generally comes from the parent public enterprise and more especially from its general administrative services.

It is they who think up the project, who test the idea and give it legal or financial form. Sometimes they specialise in seeking out and determining the decisions to be taken (study or development services, planning and strategic guide-line departments) and sometimes they perform more general functions involving a degree of strategic planning (this being the case of the financial departments, in particular).

The actual idea may result from special circumstances, from a line of general thought on company strategy, or from periodical consultations between the various administrators within the parent enterprise or between the senior officers of the first and second generation subsidiaries within a group headed by such an enterprise.

However, with but few exceptions, the idea alone will not suffice. If it is to be implemented, it normally has to undergo preliminary studies which will confirm not only its strategic value to the enterprise but also its feasibility.

What is even more certain is that it has to have won the support of one of the functional, geographic or operational administrators of the enterprise who will then put it to the Managing Director or - if such persons exist and are empowered to make proposals -

the general secretary of the group (Air France) or the relevant investments committee (Elf Aquitaine).

It is the commitment of one of these senior officers of the enterprise to the plan that gives it the boost it needs to see it safely through the relevant adoption bodies and on to the implementation stage.

Of course, these procedures are not peculiar to public multinational enterprises. But the centralisation of the strategic decision-making power with the parent public enterprise is certainly greater in public multinationals than in their private counterparts.

One of the reasons for this is the influence exercised by the shareholder State.

5.1.2 The initiative leading up to a strategic decision can originate from any one of three different sources.

5.1.2.1 Firstly, from the shareholder State which, as it does not itself have any strategic decision-making power, has to impose its ideas on the governing bodies of the parent enterprise. Even so, it cannot do this unless the plan is in keeping with the strategy of the enterprise or unless it - the State - has sufficient authority - as the supervisory body - to exert pressure on the directors of the enterprise.

These means may be attained by placing at the head of the enterprises persons who are already won over to the ideas on which the State has decided. But, in the main, they are attained through the legal or financial control that the State exercises over the enterprise. In certain extreme cases, the position of the public enterprise on its market and especially its development prospects may govern the relations that it entertains with the shareholder State and provide the directors with the leverage they need to negotiate with the government.<sup>1</sup> The relations between the Renault group and the French State are an example of this, there having been moments when the group could stand up against the industrial plans proposed by the State and others where it had to give way without negotiating.

The extent of the negotiating power that the shareholder State wields over the public enterprise explains the form taken by its intervention in this strategic decision-making process.

- Either it is in a position of strength and, through its representatives on the board of directors, it will propose the envisaged measure for adoption,
- or it considers the situation difficult and so it invites the directors of the enterprise to the government offices where it will do its best to persuade them.

5.1.2.2 Alternatively, the initiative for a project may stem from a foreign subsidiary.

If it is not independent in its decision-making, it will have to follow the strategic decision-making process imposed on the group by the parent public enterprise. However, it may be able to have some say in the matter if there exists some sort of consultative body such as those found in most of the public group structures described above.<sup>2</sup>

5.1.2.3 Finally, there is the host country which may itself try to influence the strategic decisions of the foreign public group.

Here, it has four possibilities:

- either it can act on the subsidiary under local law by very strictly regulating its decision-making freedom by preparing an investment code as has been done in many African countries;
- or it can use the powers it has within the subsidiary under local law by acting through its representatives on the board or in the general administration of the enterprise in order to influence its strategy and, in this way, the entire strategy of the group in the area in question. These powers become considerable if the subsidiary under local law has itself become a domestic public enterprise (as demonstrated by the example of Tunis Air);



- or again, it can negotiate directly with the parent public enterprise under the terms of a skeleton contract of the type concluded between the Tunisian Government and the ENI for the construction and operation of the trans-Tunisian gas pipeline;
- or, finally, it can negotiate with the foreign State which is the shareholder in the local company in order, under a bilateral agreement between the two States, to obtain the necessary technical, financial or commercial assistance.

However the initiative phase may be launched, it will end with the conclusion of a draft decision which is the starting point for the adoption phase.

## 5.2 The adoption phase

For the most part, this will involve action by the relevant bodies of the parent public enterprise or of its subsidiary under local law, along with action by the relevant authorities of the shareholder State and the host country.

5.2.1 In fact, the actual adoption of the project is effected by the relevant bodies of the parent public enterprise or of its subsidiary under local law, when it is involved.

5.2.1.1 Within the parent public enterprise, decision-making power, in principle, lies with the board of directors to the extent indicated in this study. Again, in principle, action by the board of directors is often no more than a procedural formality as the members of the board will have been forewarned of the situation by the general administration of the enterprise. So the decision is a foregone conclusion. This is all the more so if the project complies with the enterprise's general guide-lines and if it can be financed out of the budget.

However, the presence of directly elected staff representatives or of the apparently growing number of private shareholders resulting from privatisation on the board could restore to that body its true function of decision-maker, whose approval of every strategic decision would not necessarily be so certain.

As a consequence of this, the activities of boards of directors in public multinational enterprises might once again take on some of the real meaning which they seem somewhat to have lost in most private multinational enterprises.

But then the board may have delegated its decision-making power to the managing director who, in turn, may have delegated to his assistant, to the general secretary, to the delegates for each section, etc.

In this way, decision-making power may lie at different hierarchical levels depending on the financial implications of the project in view.

Decisions taken by the parent public enterprise do not dispense with the agreement of the bodies of the subsidiary concerned, especially where the parent enterprise is a minority shareholder in that subsidiary.

5.2.1.2 Within the subsidiary, the board of directors again is the strategic decision-making body. But here, too, the interplay of delegated and sub-delegated powers results in a spread of decision-making authority over different hierarchical levels depending on the importance of the decisions.

In the case of joint enterprises under local law, such as the SEREPT, we saw that there was a system of joint decision-making between the managing director and his assistant whereby the interests of the host country were protected.

5.2.2 At any rate, both the host country and the State that is shareholder in the parent enterprise are involved in the adoption of strategic decisions by means of a system of approval that permits either party to raise an objection to the implementation of a project.

5.2.2.1 The shareholder State has nearly always to approve strategic decisions which could compromise the future of the enterprise; however, this system of approbation is, in itself, interpreted more or less broadly so that public enterprises often suffer from the imposition of a rather groping and inconsistent surveillance whenever they oppose the implementation of a project which has been favourably received and approved by the board of directors.

In nearly all cases, it would seem necessary that something be done to clarify the relations between the shareholder State and its public enterprises. The French idea of planning contracts, which is currently being tried out, is interesting in this respect.

5.2.2.2 The host country can also influence the strategic decisions of a foreign public group through the authorisations it issues. However, an analysis of agreements concluded between public groups and host countries often reveals the granting of a number of special concessions, especially of a financial or fiscal nature. This, to an extent, reflects the limits of the influence exercised by the authorities of the host country.

This being so, the host country may be interested in setting up a public enterprise under local law for the purposes of some industrial or commercial co-operation operation which calls for the involvement of a foreign public group. This public group may benefit under technical assistance agreements concluded with the foreign public group and may then set up subsidiaries under local law. The host country would then grant this public enterprise a number of exclusive legal, financial or fiscal advantages. In this way, the advantages go to an enterprise under local law, controlled by host country enterprises, and not to a foreign enterprise, albeit public.

This is the principle adopted in the case of the Senegalese chemical industries and which is just one of the peculiarities of this vast operation.

The fact remains, however, that, for the host country, negotiation with a public multinational may offer some guarantee of being able to approach the shareholder State or its leaders from whom, in principle, a developed sense of public interest might be expected.

The last phase is the implementation of the strategic decision.

### 5.3 The implementation phase

This undoubtedly extends beyond the bounds of strategic decision-making proper. But it is still of interest in that the adoption of the project concerns only the principle of a decision, the conditions of implementation of which have yet to be defined.

The nature of the strategic decision can vary according to the conditions chosen.

In multinational groups especially - whether public or private - the implementation of a decision on investment or acquisition can pose problems with regard to what is known as the "legal siting of the operation", that is to say, the choice of company or group that is to implement the decision. This choice in itself has many legal implications (especially with respect to who is to control the investments), not to mention the financial, fiscal and administrative implications involved.

This choice - which is one of the elements of strategic decision-making and which is itself a strategic decision - in principle, falls beyond the grasp of the bodies of the parent company which, according to the Articles, are competent to take such decisions. It is influenced, not to say determined, by the technical departments of the central administration, especially the financial services.

Even if the final decision lies with the managing director, it is rarely put before the board of directors, and even less so before the supervisory bodies of the shareholder State or the authorities of the host country. Hence, the technical departments of the central administrations exercise real individual decision-making power. This power is all the more effective by virtue of the fact that these choices, although based on statistical analyses, ultimately imply an appreciation in which the opinion of the experts plays an essential role.

One might then ask whether public multinational enterprises might not incur some risk of "technocratisation" similar to that which J.K. Galbraith<sup>3</sup> had already observed in private multinational enterprises.

Finally, what we are observing in the public multinationals is the development of a strategic decision-making process which differs in a number of respects from that followed by private multinationals.

These differences result mainly from the role of the shareholder State, the direct influence of which on the parent public enterprise and the indirect influence of which on the structural organisation of the public groups or even on the subsidiaries under local law via the host country have been demonstrated.

The question raised by this influence of the shareholder State is whether or not this influence is always compatible with the requirements of industrial and commercial arrangement and whether, in addition to the characteristics that public multinationals share with their private counterparts, there are not a number of aspects peculiar to them alone.

#### Notes

<sup>1</sup> See especially section 2.2.3 et seq.

<sup>2</sup> See section 3.1.1 et seq.

<sup>3</sup> J.K. Galbraith: The new industrial State. Essay on the American economic system, (Boston, Houghton Mifflin, 3rd ed. 1978).



## APPENDIX I

### BIBLIOGRAPHY

- Aharoni, Y. "The state-owned enterprise as a competitor in international markets", in Columbia Journal of World Business, Spring 1980.
- Anastassopoulos, J.P. La stratégie des entreprises publiques. Dalloz gestion, 1980.
- Bhatt, V.V. "Decision-making in the public sector", in Economic and Political Weekly, Vol. 13, no. 21, 1978.
- Blanc, G. Les multinationales publiques. Les multinationales en mutation, PUF IRM, 1983.
- De Bodinat, H.R. "Le contrôle des filiales à l'étranger", in Revue française de gestion, Jan.-Feb. 1977.
- Doz, Y. "Multinational strategy and structure in government-controlled business", in Columbia Journal of World Business, Fall 1980.
- Friedmann, W. Public and private enterprise in mixed economics. Stevens, London, 1974.
- Garner, M. "Governments and public enterprises, their relationship abroad", in The Banker, Mar. 1980.
- Garnier, G., Causse, G., M. Boudeville, J. "Jusqu'où va l'autonomie de décision des filiales", in Revue française de gestion, Jan.-Feb. 1978.
- Ghertman, M. La prise de décision, PUF IRM, 1981.
- Graziani, G. "Des multinationales à l'Est?", in Revue économie industrielle, second quarter 1984.
- Holland, S. Europe's new public enterprises. Big business and the State changing relations in Western Europe. Harvard University Press, R. Vernon, editor, 1974.
- Hori, A. "Pouvoir de décision des filiales à l'étranger; l'exemple de l'Asie du Sud-Est", in Revue française de gestion, Sep.-Oct. 1980.
- Kumar, K. Multinationalization of Third World public sector enterprises. Multinationals from developing countries, Lexington Books, 1981.
- Lall, S. The new multinationals: The spread of Third World enterprises. John Wiley for IRM, 1983.
- Lamont, D.I. Foreign state enterprises: A threat to American business. Basik Book, 1977.
- Marois, B. "Le comportement multinational des entreprises françaises nationalisées", in Revue française de gestion, Mar.-Apr. 1977.
- Mazzolini, R. "European government-controlled enterprises: Explaining international strategic decision", in Journal of International Business Studies, Winter 1979.
- Mazzolini, R. Government-controlled enterprises: International strategic and policy decision. McGraw Hill.
- Rapp, L. Les filiales des entreprises publiques. Librairie générale de droit et de jurisprudence, Paris, 1983.
- Walters, K.D. and Monsen, R.J. "State-owned business abroad: New competitive threat", in Harvard Business Review, Mar.-Apr. 1979.