

Abstract

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The performance management and owner control of state enterprises

Audit approach and focuses

The performance management and owner control of state enterprises in this audit refers to the external control exercised by Parliament, the Government, the supervising ministry, the Ministry of Finance and the board of each state enterprise by means of which the state influences the operations and development of state enterprises through these organs.

The audit included the Civil Aviation Administration, which operates within the administrative sector of the Ministry of Transport and Communications; Senate Properties, which operates within the administrative sector of the Ministry of Finance; and the Finnish Forest and Park Service, which operates within the administrative sector of the Ministry of Agriculture and Forestry and in matters regarding nature protection comes under the supervision of the Ministry of the Environment. These state enterprises together have over EUR 6 billion worth of state assets on their balance sheets.

Various deficiencies, problems and development needs were observed with regard to the performance management and owner control of state enterprises. Although there is room for improvement, the State Audit Office notes that control as a whole cannot be viewed as working poorly in any of the state enterprises included in the audit.

The State Audit Office's key positions on deficiencies, problem and development needs with regard to control

Overlap in multistage control

The State Audit Office notes that the participation of multiple organs in the preparation of decisions and in decision-making sometimes slows down and complicates control unnecessarily without adding direct value to the process. Multistage control sometimes makes matters more difficult but seldom causes serious problems. In the opinion of the State Audit Office, in developing the control of state enterprises a great deal can be achieved within the present multistage framework by improving the content of control, which means developing the collection, presentation, monitoring and analysis of the information required for this purpose.

Service and other operational objectives set by Parliament

In the opinion of the State Audit Office, the service and other operational objectives which are stipulated in the state budget do not at present meet effectiveness criteria in terms of essentiality, concreteness and measurability as outlined in the guidelines issued by the Ministry of Finance in Ministerial Order 9202/17.2.1994, nor do these objectives give Parliament sufficient possibilities to influence control with regard to the level of services.

Listing tasks and objectives which are similar to those already in existence and are often stipulated in legislation on individual state enterprises and setting broad objectives in the state

budget proposal easily leads to a situation in which "everything is essential and nothing is essential".

Indicator tables in the state budget

A key objective of the indicator table model appended to the guidelines issued by the Ministry of Finance in Ministerial Order 9202/17.2.1994 is to ensure the standardization and comparability of key indicator information provided for the control process. At present different state enterprises use different indicators in their reporting, and in some cases the same indicators are calculated in different ways.

In the opinion of the State Audit Office, the guidelines issued by the Ministry of Finance should be updated and revised to ensure that decision-makers are supplied with key financial indicators which are calculated according to standardized principles.

Use of indicators, investments and long-term borrowing

With regard to investments and long-term borrowing, state enterprises are partly subject to resource-type control, since ceilings for investments and long-term borrowing are approved in the state budget. In the opinion of the State Audit Office, the state should make greater use of control based on indicators and limits in order to ensure the flexible and long-term control of state enterprises.

Through the use of indicators, Parliament and other organs can exercise control by setting objectives and limits for state enterprises. Financial indicators would not apply to investments or long-term borrowing alone, but objectives and limits would be specified for profitability, return on investment, capital structure and the level of financing, for example. The management of each state enterprise would direct operations within the limits set by indicators under the supervision of the board of directors.

The objective hierarchy would remain unchanged and service and other operational objectives set by Parliament would still place limits on financial targets.

The Government's report on the management and status of state funds as a monitoring tool
Considering the large amount of assets entrusted to state enterprises and the scope of their operations as well as Parliament's role as the supreme organ of state with responsibility for their oversight, the Government's report on the management and status of state funds fails to provide adequate information on the effectiveness of state enterprises' business operations or the achievement of service and other objectives set by Parliament for control purposes.

In the opinion of the State Audit Office, the information in the table of financial indicators appended to the Government's report should be expanded. The report should also provide information on the achievement of service and other objectives. Information available in state enterprises' annual reports could be used for this purpose.

Group structure

All the state enterprises in the audit have a group structure. This is given little consideration in practically the entire external control process, however. In the opinion of the State Audit Office, to obtain the information required for owner control it is important for group figures to be included more extensively in objective setting and monitoring so that organs participating in control can have a sufficient and correct picture of the entire group's financial operations as a basis for decision-making.

Board of directors

In the opinion of the State Audit Office, to improve performance management and owner control through the board of directors and to enhance business expertise, in selecting board members greater attention should be paid to business and management skills and previous experience in the field. The application and selection process for board members and the finding of suitable candidates should be arranged more systematically and actively than at present and should include a wider range of candidates. The State Audit Office emphasizes that finding board members is clearly the responsibility and right of the owner.

State enterprises can hardly compete with private companies in attracting board members at least as far as remuneration is concerned. In the opinion of the State Audit Office, state enterprises' position should not be made worse by leaving board members' responsibilities and state enterprises' possibilities to arrange liability insurance for board members partly unclear.

The State Audit Office notes that, although conflicts of interest on the part of officials should not be exaggerated, solutions linked to the performance management and owner control of state enterprises should also be considered from the viewpoint of such conflicts and impediments.

The managing director of a state enterprise should not be appointed to the board of directors. The board's task is not only to support and back the managing director but also to evaluate the effectiveness of management critically and to oversee management, in addition to which the board and the managing director have their own tasks and role to fulfil as stipulated in legislation on state enterprises. To ensure that the managing director's expertise is at the board's disposal, the State Audit Office considers the practice in use in a number of private companies to be a good solution: although the managing director is not a board member, he is entitled to be present and speak at board meetings unless the board decides otherwise for the consideration of a particular matter.

Although the State Audit Office emphasizes the need for consistency and standardization in owner control practices, the management culture in the administrative sector should always take into consideration each state enterprise's stage of development, position on the market, social obligations and official tasks, financial position and operating environment as well as the supervising ministry's control resources and the composition of the board of directors.

The state as a purchaser of official tasks and social services

In the opinion of the State Audit Office, from the viewpoint of competition neutrality and transparency as well as control, the state should do more to promote a buyer-supplier model in relation to state enterprises.

Financial objectives in ownership and performance policy

In the opinion of the State Audit Office, in order to ensure clear, long-term and consistent owner control, the state should prepare a long-term ownership and performance policy for each state enterprise and should note in the state budget at least the average return expected on the state's basic investment as well as the percentage of earnings which must be paid to the state at the end of the year. On this basis preliminary performance and revenue objectives would be set for the year, taking into consideration the operating environment and other factors influencing each enterprise's situation.

Reform of legislation

The delay in reforming legislation on state enterprises at the Ministry of Finance has complicated state enterprises' decision-making and caused unnecessary waiting. In the opinion of the State Audit Office, although the reform of legislation is not an end in itself, the state should be able to decide at the official level in a reasonable time what kind of reform to present or whether to present a reform at all. Delay in this matter reflects poorly on the state's ability to control state enterprises effectively.

The State Audit Office's key positions are presented more thoroughly in section 5.1, in addition to which detailed remarks are presented along with the audit observations in section 4.

Key matters regarding the arrangement of control

In the opinion of the State Audit Office, the state as owner¹ should always make sure that the control of state enterprises takes into consideration and accomplishes the following five things:

1. Ownership authority

The control exercised by the state and the use of ownership authority should be channelled clearly so that everyone's role and tasks are clear to the owner's representatives and the state enterprise.

2. Trust and responsibility

The management of each state enterprise must enjoy the owner's trust. Supervising organs must be aware of their position, authority and responsibility.

3. Objectives and means

The owner must present its own objectives and the management must be committed to them. Objectives must be based on well-grounded strategic choices and resources must be made available for their achievement.

4. Monitoring and reporting

Risk-taking and its consequences are always ultimately the responsibility of the owner. The state should be able to evaluate and control risks through monitoring.

5. Owner control and management

Balance must be achieved in the division of labour between paid management and the representatives of the state as owner, and control and management should not become entangled.

Key matters regarding control are presented more thoroughly in section 5.2.

¹ A state enterprise is not an independent legal entity, so the concept of the state as owner does not give an exact picture of ownership and control relations.