

Utility management, ownership and accountability in the 1990s

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In the present headlong rush towards privatization of economies all over the world, little is heard about an aspect which tended to dominate discussions from outside the utilities when these were mostly held firmly in public hands in the 1970s: that is, accountability. Yet this aspect of privatization will ultimately be the vital one in so far as the accompanying political surge worldwide towards democratization is concerned. It must not be hidden from sight by the more 'glamorous' aspects of privatization, such as competition and regulation, to which it is directly linked. This article attempts to restore the balance by putting some fundamental points on utility accountability into context.

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Historically and globally, utilities grew up in the nineteenth century around either municipalities or small private institutions, eg piped water supplies, coal-gas supplies, sewerage, telephones, coal supplies, electricity, and transport. This seemed a 'natural' way to develop, using the word in its original context, ie because of the nature of the utilities. Their investments and overall performance were accountable quickly and directly to the elected local authority, or the shareholders. Although the subject will be introduced only later on, strangely enough there existed some significant competition between utilities within some sectors at this stage, even to the existence of rival gas and transport services, later electricity, let alone coal supplies.

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Municipal and small private utilities could in those days cope with the amount of investments needed to satisfy the, then, small public demand, and also match the scale of the utility operation. Many of the utility services in the poorer countries in the world were owned either partly or totally by foreigners, giving another slant to accountability, a slant which was to become paramount under the later nationalization programmes. However, with the enormous increase in demand for utility services in the twentieth century, especially in developed countries, although also in developing countries after about 1950, municipalities and small private companies acting alone soon began to feel the strain, financially, operationally and in accountability, especially when they were unable to make supplies available quickly enough. This had to lead to either larger publicly owned supplies or larger regional, national or international privately owned companies. North America became the showpiece for the working of private utilities; elsewhere with respect to publicly owned utilities. Accountability for the private utilities was automatically handed over to the shareholders, also to the general 'watchdogs' for all private companies in a state or country, and to the regulatory bodies; all three acted in a combination which has proven awkward to this day. Accountability for the publicly owned utilities either remained with the local elected utility boards, or the municipalities, or was transferred completely to state or federal governments, where, in theory, the legislature was the body to which the utilities were accountable.

The latest step to record is the era of privatization which began in the 1980s and is still gaining momentum almost everywhere in the world. Many are giving this move to privatization the title of a 'second industrial revolution'; there are many parallels in the area of accountability with the first industrial revolution. In many important developing countries these

two revolutions must painfully take place virtually simultaneously, and this has caused problems in deciding to whom utilities are really accountable.

Accountability

Economists have probably been the one group of professionals who never fully lost sight of the subject of accountability, especially when it refers to aspects of public services, goods, supplies, etc. Other professional groups, quite naturally, are more easily diverted to the more 'glamorous' subjects of finance, investment, management, efficiency, markets, etc., all of which in fact do have a direct relationship to accountability. During the period between the 1950s and the 1980s when, worldwide, utilities tended to become publicly owned, funded and controlled, the subject of accountability remained high on the list of important factors to be considered in numerous studies, especially in Europe, to investigate the optimum organizational structure of the often vast public utility sectors, eg electricity, gas, coal, water, telecommunications, etc.¹ Indeed, towards the end of that era the aspect of 'failed accountability' is said to have demoralized the utilities themselves, their management and staff, the customers and the public at large. A more accurate description, seen with hindsight, would have been 'a search for accountability' in that it became to be believed that the huge state-owned economic enterprises all over the world, including utilities, had an existence all of their own, accountable to no one. This view still persists in the West with respect to those public enterprises in Eastern Europe and the former USSR, as those countries enter that democratization process likely to prove extremely painful for their utilities.

In the race towards privatization, many factors are being put forward as being 'the bottom line' on why the process must be proceeded with, and as quickly as possible. Each sector must be carefully examined to identify accountability aspects because, ultimately, especially during a swift democratization process, it is accountability, justly done, and above all, seen to be done, which will provide the ultimate test for sustainability or collapse of any socioeconomic system.

Markets

Perhaps the most common reason given for the privatization of utilities is that their markets are very inefficient. Many commentators go further and advocate the virtual deregulation of utility sectors described as: 'letting market forces take over'. This

expression is usually accompanied by others related to it, eg 'ensuring a level playing field for competition' (thus implying markets would then be efficient); 'allowing all players to be on the pitch' (the market would be fair to all); 'making the rules of the game fully transparent to all' (despite overriding commercial confidentiality this will ensure fair competition). This view of where the privatization of utilities should lead, very common in the late 1980s, is already proving somewhat hollow.² It is likely to have always been over-simplistic. Unfettered, deregulated market forces, especially for common services such as utilities, cannot by definition automatically maximize overall national welfare. This is because it is impossible to ensure, again especially in utility services by their very nature, the economists' 'Pareto optimality' of perfect competition, or even imperfect competition, ie ignoring the economists' second-best rules. In the real utility world it is virtually impossible to attain these levels of competition over a sufficiently large part of the utility services to make the conditions even theoretically viable, such as with respect to the transmission/transport and distribution portions of railways, roads, telecommunications, oil supplies, natural gas supplies, electricity supplies, water supplies, sewerage, and most coal supplies. A very large part of utility services are indeed examples of 'natural monopolies' and only make sense as such, politically, socially, economically, financially, administratively, but above all, with respect to accountability. Huge investments from some nations' resources have been made in these parts of utilities' services, and accountability is therefore an important and perhaps *the* important aspect to consider. This means ensuring that these resources are used in the optimum manner with respect to the nation as a whole. It is unfair that this should be left to private utility companies even with regulatory bodies as some people are advocating.

Competition, whether perfect or imperfect, for utilities must remain just an ideal model, very desirable to perhaps strive for, but more desirable to use as a basis for comparing the ideal against a much more complex reality. Furthermore, in the key sectors which form the infrastructure of any national economy, and especially the utility sectors so vital to society itself, perfect and imperfect competition is not only virtually impossible to attain in practice but is in fact highly undesirable, because utility sectors, plus the social sectors, provide the very foundation upon which the development of the rest of the economy and its people directly depend. These sectors cannot be just left to the vagaries of the market alone. Accountability, by whoever this is

exercised explicitly or implicitly, must ensure that the vast natural resources held in these sectors are used wisely for the nation. This aspect has never been lost sight of in the social sectors of health, education, and other social services, but nations have been slow to see its applicability to the utility sectors of a country's infrastructure. Utilities, like the social sectors, are or contain large elements of 'natural monopoly' for which economists flag danger warnings concerning lack of accountability, coupled with customer exploitation, inefficiency, lack of any true competition, and poor use of capital, labour and land.

Central planning

This discussion seems at first to lead to the conclusion that natural monopolies such as utilities are more efficient if they are the responsibility of one organization. On the other hand, however, the evidence coming from Eastern Europe and the former USSR with approaching 70 years' experience, is that a system wholly composed of centralized and detailed state planning, plus large, nationalized agencies, is economically and intrinsically very inefficient. Such systems and agencies tend to lack real accountability and move towards remoteness and authoritarianism, in fact just the charges laid in the 1970s and 1980s at the door of the huge publicly owned utilities in the UK, Europe and elsewhere. Today the evidence that these charges are true is overwhelming.

The approach, 1950s to 1980s

What does need examination here in some detail is the apparent ultimate failure of the approach towards utilities of the period 1950s to 1980s in so many non-centrally planned countries, most of which at that time were describing themselves as having 'mixed economies'. Although their utilities and many other sectors were usually nationalized, the degree of government control did not involve the intense integration of utilities' investment and operation as did the centrally planned economies. Indeed, attempts to do this were quickly dropped after having been quite widely but briefly tried.³ The 'mixed economy', having both private and public ownership, needs looking at dispassionately to assess why it apparently failed and, especially, for its application to utility accountability.

This economic system undoubtedly avoided the gross inefficiencies of the Eastern Bloc, and enabled growth rates and productivity to be far higher retain-

ing many opportunities for individual incentives and initiative in the utility sectors and elsewhere in the economy. It is also claimed that the mixed economy avoided the likely excesses of any existing *laissez-faire*, 'market forces' regime, in so far as this can be judged by historical experience before World War II. Yet, in the 1980s, this mixed economy approach was being challenged worldwide by crucial questions, still unanswered by policymakers regarding: accountability, size, structure, planning, pricing, management, etc in all sectors.

During the period 1950s to 1980s worldwide emphasis was on very large, centralized utilities and other organizations in the economy, whether privately or publicly owned. Although those which were publicly owned were formally funded by, and ostensibly accountable to, the legislatures, there was little, if any, true democratic accountability. The public at large and utility customers, over the years, came increasingly to view the utilities as remote and bureaucratic organizations. In practice, therefore, they increasingly perceived these nationalized utilities as if they were privately owned, which in many respects they may as well have been, for example with respect to: first, access from the public; second, desire to explain their detailed decisions; and, third, the remoteness of electricity, gas and other shops and offices. During this period publicly owned utilities were not really under the control of the state legislature, which had only nominal accountability to customers and the public in general, but much worse, were under the *de facto* domination of huge public corporations which were in reality accountable to no one. In many countries, as for example in the UK, local, municipal, small-sized utilities, accountable locally, had been swapped for large, virtually independent national or regional enterprises. Fortunately, this did not happen everywhere, and municipal and locally elected boards for electricity, gas, water and other utilities still exist in many countries. The lesson of the 1950s to 1980s period is not to abandon these lightly, even to a privatization programme. These local utilities have many advantages, especially with regard to local accountability.

Lessons learned

With respect to accountability, some of the negative, practical consequences of the period 1950s to 1980s which decisionmakers today should consider and learn from are:

- State-owned utilities, indeed all state-owned enterprises, come to be seen as belonging to

'them' and not to 'us' by the workforce, the customers and the general public alike.

- Small utilities, indeed all small businesses, in many countries were squeezed out either altogether, or to the periphery as franchises.
- Planning came to be seen as needing to be explained, even to the legislature, only in the widest context, eg the very broadest of fuel, pricing, investment or new-customer policies. This simply meant letting people know what had already been decided, and possibly partly why it had been decided, rather than consulting customers and the public in the policymaking process.
- Employer v employee relations tended towards confrontation with governments, the latter exercising their accountability role purely in a negative sense, eg by a wage freeze, or a pay norm or a redundancy policy;
- Local authorities became very large in some countries, such as the UK, which gradually produced an image on accountability just as bad as national or regional authorities and, thus, they no longer looked attractive as accountable controllers of local utilities.

The future

Given that there cannot be, or should be, any putting back the clock on utility accountability, for example, to encourage a complete return to small utilities, locally accountable, whether publicly or privately owned, what should be seen in the 1990s as the best way ahead? There must be many possible, workable accountability frameworks, tried and untried, within which a utility can operate. The size and nature of a utility must be appropriate to the tasks it has to perform, the technology required and available to do this efficiently and effectively: its environment, its culture and its historical setting must be taken into account – a large power station in France requires a different size, type, etc of organization and accountability mechanism compared to small rural water supplies in Peru. The form of ownership of the organization, connected very much with the form of accountability envisaged, must also be appropriate and varied. Non-public ownership is appropriate in a wide variety of areas where genuine competition can be assured, where one or a small number of smaller utilities are not allowed by the regulator because these could dominate the market. In such a situation accountability to the regulator is shared with accountability to the utility's market, eg in electricity and gas production rather than supply,

which are natural monopolies; for gas, electricity and other utility supplies it is often more efficient to give responsibility for their operation to one single organization, by sector and by area, eg by a franchise.

It can only be healthiest for the future of utilities if, in the 1990s, neither a return is sought to the structures of the 1950s to 1980s period, nor exclusively to the frenzy of privatizations in the late 1980s. A variety of forms of ownership, structure and accountability should be in the armoury of the utility decisionmaker, to be used as appropriate:

- Municipal or local authority ownership, structure and accountability is very applicable worldwide for a variety of utility services, having the advantage of ensuring direct, democratic and local accountability, coupled with close proximity to customers and to the public at large; this can take the form of joint ownership, with one or more of the owners of a private concern; it can apply to a town, a city, a conurbation, a locality, a country or a province.
- National public ownership is still worth considering in one or other of its many forms, ranging from the familiar autonomous public agency to a direct government department. Despite the deficiencies described above, these deficiencies are now well known, and they should not ever become really overwhelming again as they were in the 1970s, provided an effective and efficient system of accountability is successfully devised. It is, for example, a particularly appropriate organizational form where the task is mostly or entirely at the national level, eg inter-city railways, roads, and telephones, oil, gas, water and electricity grids.
- Cooperative ownership and accountability, taking a variety of forms, can be used for many utility services, and in many ways. They are suited to small utilities, eg rural electricity, telecommunications and water supplies, involve most of the potential members within a catchment area and tend to be non-bureaucratic.
- Private ownership, the most popular form in the early 1990s, again can take a variety of forms (strictly speaking including cooperatives). Mixed ownership utilities are starting to become popular, eg for electricity generation, combined-heat-and-power and even telecommunications in some modes, involving local authorities, municipalities, trade unions, pri-

vate investors, insurance companies, pension funds, giving the utility a wide accountability range.

Appropriateness and accountability

It is submitted that the classic economic principle of 'appropriateness' leads automatically not only to that of having a diversity in the kinds of utility organization, but also in the forms of control and that the latter leads to a variety of forms of accountability. Utilities are set up for a particular purpose and not for their own sake. They have tasks to perform and in the long term they must not only do these tasks, but also appear to do them to the public satisfaction if they are to survive; recent history has shown this to be true in the Eastern Bloc and the former USSR. They must show accountability on both *throughput* and *quality* of services. Having the appropriate utility structure includes establishing the appropriate accountability system of *monitoring* which is adequate to the task it is being asked to perform, including quality assurance and performance review. The utilities themselves, together with all their officials, must be able to be called to account in some way, whether the utility is privately or publicly owned, perhaps, through a regulatory body as in North America today. But a problem which has never been solved is how to do these things and yet allow utility managers freedom in dealing with day-to-day operation, and this needs further study.

Subsidiarity

Whatever the state of an economy, developed or developing, and the degree of its democratization, in the economic sense the state cannot abrogate all of its responsibility with respect to the utility sectors, and it cannot leave utilities accountable only to market forces. The state, either acting directly or indirectly, eg through a regulatory authority, has many vital roles to perform. The degree of involvement, and whether at the local, provincial or national level will again depend upon appropriateness, but

it must also accord to the economic principle of 'subsidiarity' if it is to be successful long-term (again reference Eastern Europe). This means more than expediency on the part of government. Rather, it is recognizing the intrinsic composition of society in general. To continue to exist, the national state must fully reflect the prior existence and autonomy, as appropriate, of the provincial and local elements of the nation, including private bodies. The state's very existence ultimately reflects the collective, communal side of human nature itself. The nation's communities, households and human organizations are inter-locking and inter-dependent, but they exist also in their own right, seeking ultimate accountability to them for all who provide them with goods and services. Facilitating and supporting local and provincial enterprises, especially those outside the public sector, is best left as much as possible to the local and provincial authorities, but the central state can, and on occasions for certain tasks must, help these authorities with finance, provided effective systems of accountability are locally present.

With respect to the above subsidiarity aspects, but also with respect to all that has been said in this article, what is not being advocated here is giving in to the natural temptation of setting up large, complex and complicated systems for measuring accountability; some simple, understandable rules are needed, modifiable with experience, and not too rigidly applied. Whilst the frantic privatization of utilities proceeds worldwide, it is vital not to lose sight of all the aspects of accountability mentioned above, if any new set of ownership, funding, management, control, etc aspects of utilities is to last for any length of time. The clock can never be put back, but important lessons can always be learned from the past.

¹See the many published reports of studies in the period 1950 to 1980 on the re-organization of the electricity supply industry of the UK; also of France and Italy.

²See reports in late 1991 by the regulatory bodies for electricity, gas, water and telecommunications in the UK; also, reports on the utilities and economic structural adjustment for various countries by the World Bank during 1991.

³See the UK Fuel Policy and Economic Plan white papers in the mid-1960s, and similar documents in France and Italy.