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Who's governing there?

Report for 2019

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Introduction

As providers of a series of basic services to citizens, the operation and management of public enterprises directly impacts the overall quality of life and development within the community. The primary importance of the services they offer, such as water supply, cleaning waste, maintenance of roads and many other services, makes the operation of public enterprises the subject of interest of many citizens. Taking into consideration the fact that they are founded and have obligations assigned by the central or local government additionally makes them the focus of public interest because the quality of their work is directly dependent on the will and capacity of institutions managing them directly or indirectly.

Taking into account their role and tasks allocated, it is important for public enterprises to be managed by persons

who are knowledgeable and have experience and who can essentially make a contribution. At the same time, since public enterprises have public resources at their disposal and execute tasks of public interest, immediate oversight over their financial and material operations is indispensable. Quality of persons in governing structures, CEOs, as well as members of management boards (MB) and supervisory boards (SB) is one of the key preconditions for these processes to be not only formally but also essentially implemented and to be of benefit to the enterprise. Nevertheless, surveys show¹ that this is often not the case and that public enterprises are governed by people with insufficient experience in the field of operation of the enterprise and have inadequate formal education, in particular in supervisory boards.

¹ For further information on the research methodology, as well as about the state of affairs in 2018, see: Misha Popovikj, Marko Pankovski, *Who's governing there?* IDSCS, March 2019. Available at: https://idscs.org.mk/wp-content/uploads/2019/03/WEB_A5_MKD_KOJ_TOA_TAMY_UPIRABUYBA.pdf

► One of the key methods of increasing the quality of qualifications within governing structures is to implement an open and transparent selection procedure. Still, practice shows that management and supervisory board members are selected in a non-transparent procedure, without publicity of the process and with strong political party influence. The consultations with public enterprises conducted by the Institute for Democracy “Societas Civilis” - Skopje in the course of the research gave rise almost everywhere to the conclusion that management and supervisory board members are selected following the principle of political party loyalty and have a weak capacity to essentially contribute to the operation of the public enterprise. This brings public enterprises to a situation of not being able to use management and supervisory boards in the direction of improving their operation, despite having funds allocated for their work.²

² For further information regarding the fees of management and supervisory board members, see: “Analysis of Appointed and Selected Persons - Monitoring Report” Center for Change Management, March 2018. Available at: http://www.cup.org.mk/publications/_lmenuvani%20i%20izbrani_zaz%20web_02.pdf. Accessed on: 15.02.2019

Goal of the Analysis and Approach

Goal of the analysis is to look into the state of affairs relating to management of public enterprises from three perspectives. First of all, outlining the current state of the level and type of qualifications of persons managing public enterprises, i.e. CEOs, members of management and supervisory boards. Secondly, comparison with the conditions from the previous year. Finally, insight into the opinions and stances of citizens regarding the work of both the governing structures and public enterprises as a whole.

For this purpose, the Institute for Democracy continued in 2019 and 2020 the collection of information about the qualifications of management and supervisory board members in public

enterprises. In the course of the 2019 and 2020 research, data was gathered about management and supervisory board members appointed at the beginning of 2019, as well as about members whose CVs (Curriculum Vitae) had not been collected during the 2018 research. According to this, requests for public information³ were sent to all public enterprises with changes in their governing structures. So, data was requested for 406 members of MB and SB. In 82% of cases CVs were submitted, in 17% of cases no CV was submitted, whereas in 3% of cases there was stillness observed on the side of the administration.

With regard to the availability of data and the readiness of founders and public enterprises to share the CVs of their governing structures, the situation remains almost unchanged compared to 2018. Once again there were a series of cases noticed where public enterprises ►

³ The request for public information contained a request for the submission of CVs of the entity's CEO, of management board members, and supervisory board members.

► and founders shifted the responsibility as to who should be in possession of such information. Furthermore, the CVs of CEOs of public enterprises are more readily available when compared with members of management and supervisory boards. Finally, certain public enterprises, even though to a very small extent, refused to submit CVs and failed to submit data or submitted data on the level of name and surname of members.

The analysis provides an insight into the state of affairs following several parameters related to the qualifications of members of governing structures, such as the structure of members of governing structures, experience in the field of operation of the enterprise, educational structure relating to formal education, and gender representation. Additionally, in the case of supervisory boards insight is given into the level of experience and the type of qualifications of supervisory board members and their readiness to control the material and financial operation of the enterprise.

The initial impression is that the condition has not significantly changed compared to the previous year. The experience in the field remains further on the main shortcoming among members of governing structures. Moreover, again cases are registered where management board members also fail to meet the formal educational criteria proscribed in the Law on Public Enterprises. When it comes to gender representation, the situation is almost unchanged and there is still a serious gap in favor of men.

Experience still the biggest challenge for the quality of management structures

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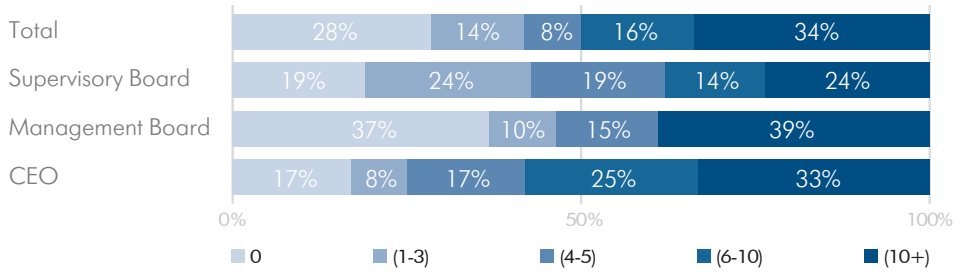
In the analysis published in 2019 we concluded that the greatest deficit of management structures was the lack of experience. Thus, in the previous analysis, approximately one half of the persons had either no experience or not more than five years of experience in the field of operation of the public enterprise.

Similar as the previous year, the analysis of submitted CVs shows again that one half of management structures has either no experience or experience of up to five years in the field of operation of the enterprise. Results show that

among newly appointed CEOs in-between the two measurements, 17% have no experience in the field of operation of the enterprise, 8% have between one and three years of experience, and additional 17% between four and five years of experience. As opposed to these, 58% of CEOs have experience of six or more years, whereas one third has over 10 years of experience.

With supervisory boards the situation is the worst, where 62% of members have experience of up to five years. Almost every fifth supervisory board member has no experience whatsoever in the field of operation of the enterprise, and almost one fourth of the members have between one and three years of experience. With even 37% of supervisory board members no experience in the field of operation of the enterprise can be noticed, but, at the same time, with 54% there is experience of at least six years.

Figure 1. Years of experience in the field of operation of the institutions (data covering 74 persons)

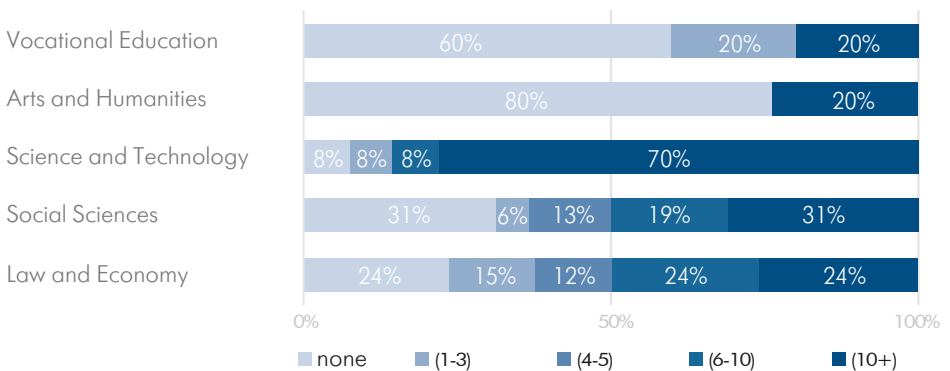


Again, similarly as in 2018, management structures with educational background in science and technology have the largest experience. Even 75% of this staff has experience of over 10 years in the field of operation of the enterprise. They are followed by the ones with social education, 31% of whom have over 10 years of experience; nevertheless, 31%

have at the same time no experience at all.

We single out lawyers and economists as a special category who comprise 45% of newly appointed members of the management of enterprises. Among them, 48% have experience of over six years, 27% have between one and five years of experience, and 24% have no experience.

Figure 2. Years of experience as per education field (data covering 71 persons)



In a nutshell, the practice of appointment of management structures who do not have the necessary experience in the field of operation of the enterprise continues.

Again persons with insufficient educational qualifications have found their way through the legal “sieve”

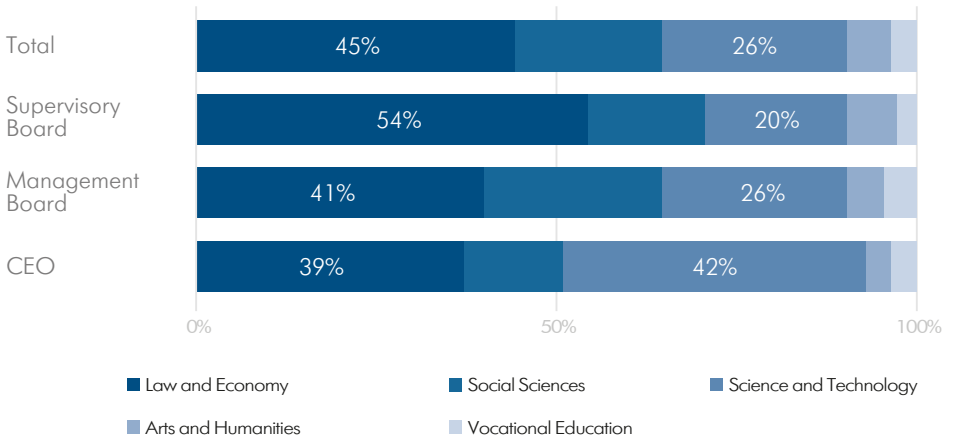
Higher education is a clear formal criterion for CEOs and supervisory board members in public enterprises. In addition, among the selection criteria applying to supervisory board members, education in the fields of law and economy is mandatory because of the need for expert inspection of material and financial operations.

In the forthcoming period, it is necessary to observe a shift towards improvement of the situation, through strengthened selection criteria focused on experience and skills.

However, the analysis shows that 6% of CEOs and 11% of supervisory board members do not have higher education (analysis of 302 persons). Furthermore, if we cross the function in management structures and the field of education, it may be noticed that 54% of supervisory board members have studied law or economy.

Data show that law, economy and other social sciences predominate governing structures. It seems that the situation is the most balanced among CEOs, 42% of whom have education in science and technology.

Figure 3. Governing structure as per field of studies (data covering 256 persons)



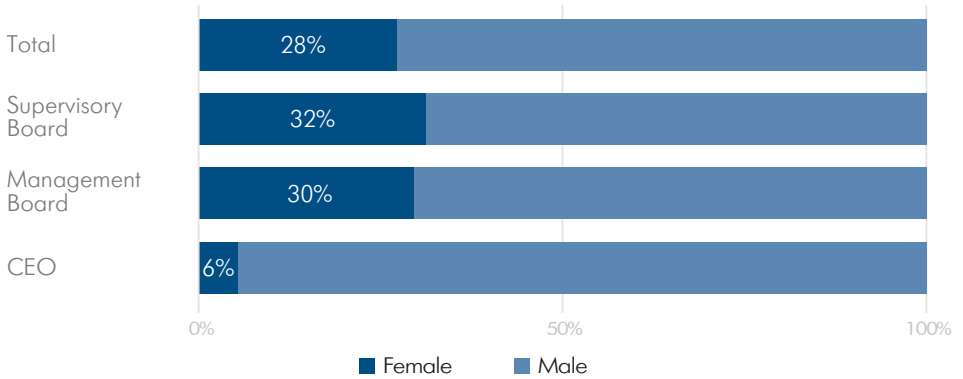
Management is a male profession

If data about newly appointed members of management structures are analyzed, it may be observed that women are significantly less represented. So, in 2018, 29% of managers were women, whereas in 2019, this percentage amounts to 28.

This situation is the most expressed among CEOs, only six percent of whom are women. Such state of affairs points out again the systemic discrimination resulting in women having no equal access to management positions.

Figure 4.

Ratio of women and men in management structures (data covering 406 persons)



Notes of monitoring a session of the Council of the City of Skopje

On January 29, 2020, a team of IDSCS monitored a session of the Council of the City of Skopje. In the session, management and supervisory board members were selected for the PE Drisla, as well as several empty seats on management and supervisory boards of several Skopje public enterprises were filled out.⁴

During the selection, Council members had only the selection proposals in their hands, with name and surname of the person who was supposed to be appointed. No additional materials were provided to them, which would present to them the qualifications of the persons proposed. Following the requests of the opposition to be provided with more

⁴ PE Communal Hygiene, PE City Parking and Public Traffic Enterprise.

- ▶ information, the response of the majority was that there was no legal obligation for that. Even though this is correct, still the advisers were short of two key things:
 - The advisers did not have the opportunity to see a document (confirmation) by city services that the persons they were selecting meet the formal criteria. The results above show that there are cases when these positions are filled out by appointed persons who do not meet these conditions determined by law.
 - The advisers did not have the opportunity to get familiar with the qualifications of proposed candidates and thereby assess their adequacy. Regardless of the fact that there is no obligation for candidates to submit a CV, a question is raised regarding the way how, without any insight into the qualifications, competences and experience, advisers can make an evidence-based decision differently.

The hidden criterion

Based on the analysis of the CVs of members of management structures, as well as on the sporadic monitoring of the session of the Council of the City of Skopje, it turns out that the practice of filling out positions is not based on competences and experience.

The large percentage of persons without

a satisfactory length of experience in the field of operation of public enterprises shows that there are different rules governing this process. In a survey conducted in February 2020, on a representative sample of 1000 respondents, 80% of the respondents believe that the main appointment criterion is political party

affiliation. This also corresponds with the impression gained in consultative meetings with public enterprises and founders (above all municipalities)

where we were often told that political party affiliation is the main precondition for membership in management and supervisory boards.

Citizens on public enterprises

In the telephone survey conducted by M-Prospekt agency, we asked the citizens about their opinion on the work of public enterprises. Thus, 35% of the

respondents answered that they were familiar with their work, 63% said that they weren't, whereas 2% didn't want to respond.

Table 1. How familiar are you with the manner how CEOs of public enterprises and state-owned companies are selected? (%)

I am well familiar	13
I am mainly familiar	22
Mainly I am not familiar	21
I am not familiar at all	42
I don't know	2
Total	100

Citizens are divided as to their satisfaction with the work of public enterprises.

So, 44% are satisfied, whereas 54% are dissatisfied with their work.

Table 2. How satisfied are you with the work of public enterprises in the Republic of Macedonia? (%)

I am very satisfied	4
I am satisfied	40
I am not satisfied	32
I am not satisfied at all	22
I don't know	2
Total	100

A large majority of citizens believes that public enterprises are used for the

purpose of employment of political party staff.

Table 3. To what extent do you agree with the following statement: Public enterprises are used for the purpose of political party employment? (%)

I completely agree	63
I partially agree	23
I partially disagree	5
I disagree completely	5
I don't know	4
Total	100

What next?

The Ministry of Economy established a working group on the amendment of the Law on Public Enterprises towards the end of 2019. As part of this initiative, the proposals that IDSCS developed together with the Ministry of Information Society and Administration (MISA) aimed at improvement of the criteria for selection of management and supervisory board members, as well as of CEOs of public enterprises founded by units of the local self-government were accepted.⁵ These amendments, in conjuncture with the draft Law on Senior Management Service proposed by MISA, are the basis for how the aforementioned problems can be lessened or fully eliminated.

Thus, it is exceptionally important for these two proposals to be adopted by the new composition of the Parliament of the Republic of North

Macedonia. Similar to the Law on Senior Management Service, it is necessary for MPs to also organize a public hearing about the proposed amendments to the Law on Public Enterprises, and following a broader discussion, to improve this law.

However, after the elections (whenever they take place), there will be a vacuum period in which existing laws are valid. The analysis shows that the old practice continues in certain parts of the government, in parallel with the expressed will among some institutions to improve the method of appointment. This is a situation of contradiction. In the following period, especially after the elections, when there will be new managers of enterprises, institutions and agencies appointed anew, it is necessary to observe the basic principles of the amendments proposed.

⁵ The selection of CEOs of public enterprises and state-owned shareholding companies is encompassed by the draft Law on Senior Management Service.

The government, as well as other appointing authorities, have to follow the principles of publicity, competitiveness and competences. The appointment should be preceded by an announcement and transparency in the evaluation of candidates. This also means explanation of the reasons for rejecting the candidates. The founder should ensure that each short-listed candidate will be interviewed so that the competences are determined more accurately as well as the proposed work plan of the institution that the person has applied to manage.

This way the gap between the existing legislation and the proposed amendments to the Law on Public Enterprises and the Law on Senior

Management Service will be overcome. The founders will demonstrate that the old practice and the “unknown selection rules” have been abandoned and that institutions are prepared for a modern way of appointing management structures, ensuring thereby advanced institutions.

Information about IDSCS

IDSCS is a think-tank organization researching the development of good governance, rule of law and Macedonia's European integration. IDSCS has the mission to support citizens' involvement in the decision-making process and strengthen the participatory political culture. Through strengthening of liberal values, IDSCS contributes to coexistence of diversity.

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Information about the project

Improved good governance of state owned enterprises and independent state bodies” is funded by the UK Aid from the UK Government. The project will analyze the performance of public enterprises (PE) state owned enterprises (SoE), as well as independent state bodies (ISB) with regards to the competences of their management boards and the established procedures. It will assess whether there are procedures in place which make the managers of these institutions resistant to clientelism and corruption. The project aims at initiating change in the governance culture of the target institutions as a sustainable basis for their long-term growth as well as a basis for improved self-reporting.

Link

This publication is available at:

- <https://idscs.org.mk/en/portfolio/whos-governing-there-report-for-2019/>

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