Evidence of New Public Management during the Rural Electrification Scheme

Martin Quinn*[1], Dublin City University Business School
Liz Warren[2], University of Greenwich

[1]Dublin City University, Business School, Ireland.

[2]Faculty of Business, University of Greenwich, United Kingdom.

*Corresponding author: Dr Martin Quinn, Dublin City University Business School, Glasnevin, Dublin 9, Ireland. Email: martin.quinn@dcu.ie

Acknowledgements
We would like to acknowledge the invaluable help of all staff at the ESB Archives, Dublin.

Introduction

In recent years, much attention has been given to various New Public Management (NPM) initiatives. Hood (1991)[1] suggests NPM emerged as a set of doctrines in the late 1970s. In this paper, we explore NPM during the Rural Electrification Scheme (RES) using archival material from the Electricity Supply Board (ESB). One of the ESB's key projects was the electrification of rural Ireland, spanning a time period of mid-1940s to late 1970s. This project involved accountants, and emerging and evolving accounting and management practices. It is thus, at first sight, a project which may include elements of NPM.

NPM and context

NPM, as noted by Hyndman and Lapsley "has been widely observed and debated since the seminal contribution of Hood's observations" (2016, p385)[2]. Hood (1991)[3] describes the components of NPM based on observations from the 1980s in a UK context, placing its origins in the mid-1970s. Hood (1991,1995)[4] suggests seven basic components of NPM, as per Table 1.

- Unbundling the public sector into corporatised units organised by product
- More contract-based competitive provision, with internal markets and term contracts.
- A stress on private sector management styles.
- A stress on discipline and frugality in resource use.
- Visible hands-on top management
- Explicit and formal measurable standards and measurement of performance and success.
- Emphasis on output controls.

Table 1 - components of NPM (Source: Hood (1991, 1995) and Hyndman and Lapsley (2016))

[1] C. Hood, 'A public management for all seasons?', in *Public Administration*, (1991) pp 3-19.
[2] N. Hyndman & I. Lapsley, 'New Public Management: The Story Continues', in *Financial Accountability & Management*, 2016 pp 385-408.
[3] ibid
[4] ibid and C. Hood, 'The NPM in the 1980s: Variations on a Theme', in *Accounting, Organizations and Society*, 1995, pp 93-109.

Lapsley (2008)[5] notes the embedded positions of professionals in NPM and one such professional grouping is accountants, or specifically accountants who are the focus of this study.

Irish semi-states and the ESB

Since the formation of the Irish Free State in 1922, various forms of state-controlled entities have been used for policy and infrastructural objectives. In general, Irish commercial state-owned enterprises (or semi-states) are formed in the same way as a private company – e.g. Jollands and Quinn (2017)[6] note the formation of Irish Water. Typically, a Minister or Department is the sole shareholder in the company and semi-states are involved in key infrastructure areas such as transport, water and power.

The ESB was formed in 1927, with the passing of the Electricity (Supply) Act 1927. Section 2(2) of the Act designates it "a body corporate", although the company did not have a share capital. It was funded through advances from government and it was not until the passing of the Electricity (Supply) (Amendment) Act, 2001 that shares were issued. The ESB was founded (as per the 1927 Act) with a mandate of generating sufficient revenue to cover costs of generation and transmission. Today, annual revenues are approximately €3 billion and profits €400m. After the Shannon Scheme, the ESB's first large-scale project was rural electrification. Although first mentioned by Government in May 1939 (Manning and McDowell 1984, p123)[7], it was not until after World War II that the project emerged. A White Paper was published in early 1944, authored by Thomas McLaughlin, the first Chairman of ESB. Government approval was sought and granted, planning began in 1945 and the first pole erected in November 1946 (Manning and McDowell 1984, p131)[8]. The RES was organized through 792 districts (equating to Catholic parishes). As noted by Shiel (2003, p6)[9], it was "the greatest social revolution in Ireland since the Land Reforms of the 1880s and 1890s". The scheme took about 30 years to complete, cost €140 million (Shiel 2003, p7)[10] and contributed an infrastructure to support economic development to the present day.

[5] I. Lapsley, 'The NPM Agenda: Back to the Future', in *Financial Accountability & Management*, 2008, pp 77–96.
[6] S. Jollands and M. Quinn 'Politicising the sustaining of water supply in Ireland - the role of accounting concepts', *Accounting, Auditing and Accountability Journal*, 2017, pp 164-190.
[7] M. Manning and M. McDowell, *Electricity Supply in Ireland - the history of the ESB*, Dublin 1984.
[8] ibid
[9] M. Shiel, *The Quiet Revolution - the electrification of rural Ireland*, Dublin 2003.
[10] ibid

Sources and method

We now turn to the data sources and methods used in this study. We deem the ESB a public sector organization and potentially susceptible to the concepts of NPM. Our primary source is the corporate archives of the ESB. The time frame is just over 30 years from 1946 to 1977, the period of the RES. From the archives, we have had access to the Annual Reports of the company which has much progress information on the RES. We also had access to all 792 district files for the entire period. With such as vast amount of data, we selected a sample of eight regions to search for tenets of NPM. We also reviewed copies of the Rural Electrification Office[11] (REO) magazine, *REO News*. Finally, we had access to some files of the Chief Accountant. We also draw on *The Quiet Revolution - the electrification of rural Ireland* and *Electricity Supply in Ireland - the history of the ESB*. Based on these sources, we looked for evidence of Hood's components of NPM as per Table 1.

Findings

Unbundling the public sector & more competitive provision

We take the first two items of Table 1 as one for presentation reasons. When the ESB was formed in 1927, it reported directly to the Minister for Industry and Commerce[12]. However, we found no evidence that the government interfered in the day-to-day operations of the company, which is reflective of the NPM notion that units within the public sector work on an arms-length basis. The RES was funded to by government, but this funding too was on an arms-length basis and fully repayable. An initial £5 million was granted by the Electricity (Supply) (Amendment) Act 1945, which according to Shiel (2003)[13] was fully repayable by the ESB over a period of 50 years. The initial amount was "one quarter of the total estimated cost, thereby ensuring that the progress of the scheme came under Dáil[14] scrutiny at any early date" (Shiel, 2003, p35)[15]. Thus, the government could evaluate progress before advancing further funds. Finally, the organisation of

[11] This was the organizational unit responsible for the RES.
[12] The title of this Ministry has changed over the years, but the line of reporting continued.
[13] ibid
[14] This refers to Dáil Eireann, the lower house of parliament in Ireland.
[15] ibid

the RES itself is an unbundling. Shiel (2003, pp57 - 60)[16] summarises the organization of the Rural Electrification Office very well:

> The first step was the setting up of the Rural Electrification Office (REO), the specific ESB management organisation charged with the carrying out of the scheme. In charge was W. F. Roe who exercised broad control over the whole activity. He had been given by the Board a very high level of authority and discretion and delegated much of this downwards to the District and Area Engineers. His deputy and assistant was P. J. Dowling.

From the above it is apparent that the REO was a separate organizational unit, and as we reveal later, as time progressed reported performance separately also. Shiel (2003, p60)[17] also noted the presence of a Rural Accounts function:

> Rural Accounts were integrated with the general Accounts organisation of the ESB, under the supervision of Divisional Accountant Neil O'Donoghue who, while seconded whole-time to the Rural Electrification Office, still reported to the Chief Accountant. The particular and often unique circumstances of rural electrification frequently required special accounting consideration and O'Donoghue ensured that harmonisation was maintained with the established system while still allowing the new organisation to develop in a flexible and dynamic manner.

In terms of more competitive provision of services, during the time of this study there was no evidence of this component of NPM. The Irish electricity market was not deregulated until 2005, with full deregulation by April 2011[18].

Private sector management styles

What constitutes private sector management style has been debated by management scholars and now we give some examples from the RES. First, the management of the RES during the majority of the timeframe can be best described as from a professional engineering culture. Sound commercial-type decisions seemed to be the norm. As one example, investment decisions were grounded in economic reality and a minimum return on investment sought. Second, throughout the early part of the RES and later in the late 1950s (under a Planned Post-Development scheme) education, demonstration and advertising was used to enrol more customers. The following extract from a demonstrator's guide from the 1950s conveys a clear commercial sense:

[16] ibid
[17] ibid
[18] See http://www.cer.ie/customer-care/electricity

> Our main reason for holding demonstrations - public as well as private - is to conduce to the greater consumption of electricity. It is expected that by publicly and privately proving the advantage of electricity in various fields - mainly in that of Cooking perhaps - increased use and consumption of electricity will naturally follow. Demonstrations are therefore an important avenue of SALES EFFORT.
> (Source: http://esbarchives.ie/2016/02/11/energising-demonstrations/, capitalisation in original)

Discipline and frugality in resource use

As revealed in the Annual Reports, the ESB had a sizeable cost of generation, with many of the fuel costs being outside of their control - the 1977/78 Annual Report noted fuel costs accounted for 40% of all expenditure. While it did not hedge fuel costs during the timeframe of this study, the cost per Megawatt produced at each power station was reported. From this, we can surmise the Board had an interest in costs of generation. Additionally, as we examined the sample districts, we noticed materials were accounted in a standard way. Each area was mapped from an Ordnance Survey map and the best location for transmission cables chosen. From this and the number of dwellings canvassed, an estimate of the materials needed was made, a corresponding requisition made to stores, and capital expenditure approval sought. The presence of such controls suggests efforts to control material costs. On controlling labour resources and costs, the ESB's labour relations record during the time of the RES is reasonable as revealed by the Annual Reports. A tribunal was established in 1942 to deal specifically with labour relations as it was the country's sole producer of electricity. The 1961 Annual Report notes an all-out strike by certain grades and throughout the latter half of the 1960s there is on-going mention of industrial relations issues, with the ESB Board calling for better industrial relations machinery to assist it, for example:

> The Board hopes that a better atmosphere and machinery for settling disputes may evolve from the new Department of Labour and from the proposed amendments to the Industrial Relations and Trade Unions Acts. So far as the electricity supply industry is concerned it is the earnest wish of the Board to achieve by agreement a situation in which this most essential service will be freed from the threat of interruption by strike action. (Annual Report, 1965)

Visible hands-on top management

From 1927, the ESB board were named in its Annual Report and it was (and is) subject to the same financial reporting and corporate governance requirements as any Irish company. The archival

data suggests managers were indeed free to manage. The following quote from the 1976 Annual Report suggests the ESB was free to develop its own management style:

> When the ESB was founded there was little native experience of large-scale electricity supply, or of administration outside central and local government. The Board responded to the need by a policy of developing Irish expertise within the organisation to the maximum extent possible. This development has been achieved to a remarkable degree which is unique amongst electricity utilities throughout the world.

In the sample district files, we found many examples of local politicians making representations by letter to the REO to, for example, increase voltage or install supply to a particular dwelling or business. All such letters were replied to in the same manner, with the query being referred to the responsible area engineer or an explanation given as to the cause of the particular problem. This again suggests independent management.

Measurable standards and measurement of performance

This refers to goals and targets being defined and actual performance measured[19]. Our analysis reveals several interesting standards and performance measures. First, McLaughlin's (1944)[20] report on Rural Electrification suggests a "realistic" return of 9.7%, lower than the normal target of 12% experienced in urban areas. The same report suggested a minimum return of 5.7%[21]. Each district we examined contained detailed canvass results, with higher canvass results yielding a higher return. The canvass process was as follows - canvass the area, budget for materials and other costs (including a 20-22% overhead charge), obtain capital expenditure approval, complete the work and submit a capital completion form showing actual cost details. To illustrate, in the area of Dunsaughlin, the canvass results show an 8.38% return (dated 10/11/49) with an estimated capital cost of £13,756 noted. Later, the actual spend was recorded as £9,450. As another illustration, the area of Glenhest had canvass results with a 3.52% return (dated 23/1/57) and is noted as "uneconomic rural", with a capital cost of £24,390 for 148 customers.

[19] Hood 1991

[20] T.J McLaughlin, T.J. *Report on Rural Electrification in Ireland*, Dublin 1944.

[21] As noted by Shiel (2003, pp 272-273), the minimum return varied during the lifespan of the RES. The lowest was 4% in 1958.

Emphasis on output controls

Output controls imply a link between measured performance and resource allocation and rewards. On the latter point, we cannot be certain how what we now describe was or was not used as pay and rewards as records are not available. Having said that, on initial examination of the *REO News*, it became very clear that the performance of district teams was not only measured, but was also a motivational and control tool. The first volume of the *REO News* from September 1948 contained a detailed chart of total costs incurred in selected districts - but the actual district was disguised. As we continued to explore the *REO News*, we noted requests that the cost chart data identify districts, apparently coming from a competitive sense of areas to outdo each other. With a few months, the chart was published in full and as time passed, more information was published on the performance of each area and publication continued for many years. Figure 1 and 2 provide some examples. The note under the table of costs in Figure 2 is interesting as it refers to crews who were previously reported - reinforcing the competitive nature of these reports among the area engineers and their crews.

[insert Figure 1 here]

Figure 1 – are progress, *REO News,* September 1953 - Copyright of ESB Archives.

[insert Figure 2 here]

Figure 2 - costs per area. *REO News* April 1959 - Copyright of ESB Archives.

A second results based control was found in each of the district files in that capital costs for each district were planned and the actual cost reported once complete, with a variance noted. A third, results focused example was the separate reporting of revenues and costs for the RES in the Annual Reports. From the Chief Accountant's file, we noted a meeting of July 28th, 1950 when ESB and government officials met to discuss separating rural and urban accounts. A government official noted "the necessity for the Government to receive and to publish accounts showing the financial results of Rural Electrification". On November 17th, 1950, the ESB Board made a decision to comply and refers "to Chief Accountant and Mr Dowling[22] to draw up a Profit & Loss account

[22] Deputy Manager of the REO.

which would be suitable for submission to the Government". Following the Board's decision, an Electricity Revenue Account showing revenues, costs of generation, transmission costs and general administration costs were reported separately for rural and non-rural from the 1951/1952 Annual Report until 1971.

Concluding comments

From our detailing of the archival records here, it seems appropriate to conclude that the ESB was a well-run state-owned entity during the RES period. We have shown that many of the components of NPM were indeed present from the early days of the RES in the 1940s and 1950s. What is particularly interesting from our analysis is that many of the features of NPM as suggested are present in the late 1940s. Thus, from our analysis, albeit single case evidence, we can tentatively conclude that NPM was an evolving concept with roots pre-dating what extant literature seems to suggest.

Primary sources

Electricity Supply Board archives, Dublin.

Documents used

- Annual Reports and Accounts 1945-1975
- *REO News*, 1950-1955
- Rural Electrification Scheme district files, references 202/287, 202/759, 202/251, 202/203, 202/791, 202/344, 202/94, 202/31,
- Chief Accountant files, reference 230 Rural Development General.