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ERRATA

- p4 para 2, second sentence: quotation reference is (PBRC 1992, 86)
- p80 para 2, line 5: "Institution of Engineers" for "Institute of Engineers"
- p342 line 15: "Wildavsky, Aaron" for "Wildavsky Arron"
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- p351 line 9: "Kellow, Aynsley" for "Kellow, Ainsley"

MONASH UNIVERSITY

**THE CORPORATISATION OF A BUREAUCRACY:
THE STATE ELECTRICITY COMMISSION OF VICTORIA
1982 TO 1992**

**A DISSERTATION SUBMITTED
TO THE FACULTY OF BUSINESS AND ECONOMICS
IN CANDIDACY FOR THE DEGREE OF
DOCTOR OF PHILOSOPHY**

**BY
THOMAS EDWARD EVANS B.Com.; M.B.A.; M.Com.**

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STATEMENT OF DECLARATION

I declare that this thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other institution and that, to the best of my knowledge and belief, the thesis contains no material previously published or written by another person, except when due reference is made in the text of the thesis.

A solid black rectangular box used to redact the candidate's signature.

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ABSTRACT

This study examines the management of the State Electricity Commission of Victoria (SECV) from 1982 to 1992, these being the last ten years of its existence as a discrete, vertically integrated organisation. In the 1980s the SECV, Victoria's largest public utility, was confronted with a new and turbulent operating environment as governments around the world sought to 'reform' the public sector. In addition a Labor Government was elected in Victoria in 1982 for the first time in thirty-seven years with, *inter alia*, particular plans for the SECV.

Conventional wisdom at the time saw large public utilities, such as the SECV, as monolithic, self-serving and unaccountable bureaucracies. From the literature on bureaucracy the proposition was developed that the SECV approach to management, and its culture, would inhibit organisational flexibility and consequently would reduce its capacity to effectively manage in a volatile operating environment.

The study found that the SECV took the initiative and led the way in making itself less bureaucratic and more responsive to its operating environment. This occurred while the Labor Government moved from an initial controlling and directing position to one where, by the early 1990s, it was responsible for ambiguous policy direction on energy matters and Government Business Enterprise reform.

During Labor's final years the SECV became the initiator of change. This represents the major finding of this study as it meant there was a prospect the SECV could have further 'reformed' itself and increased its efficiency over the 1990s. Instead, the decision was taken, by the incoming Kennett Government, to privatise it just as it was poised as a revitalised and streamlined organisation, to meet the challenges of the future. The case of the SECV is an empirical rejection of the theoretical shortcomings attributed to the bureaucratic form and consequently raises questions about the applicability of that theory to modern bureaucracies.

CHAPTER ONE

INTRODUCTION

Introduction

This study examines the management of the State Electricity Commission of Victoria (SECV) from 1982 to 1992, these being the last ten years of its existence as a discrete, vertically integrated organisation. In 1992 the newly elected Victorian Government, a Liberal National coalition, immediately commenced the full privatisation of the SECV. While the Liberal National era is not part of this study, the sale raises a number of fundamental questions about the SECV and what occurred in the previous ten years.

In the 1980s the SECV, Victoria's largest public utility, was confronted with a new and turbulent operating environment. A Labor Government was elected in Victoria in 1982 for the first time in twenty-seven years with the intention of reforming the public sector and with particular plans for the SECV. Nationally and internationally, governments were reappraising their role and that of their business enterprises. In addition, an increasingly articulate and demanding community was seeking to participate in government decision-making.

Conventional wisdom at the time saw large public utilities, such as the SECV, as monolithic, self-serving and unaccountable bureaucracies. Further, critics of the bureaucratic form argued that the likely reaction of a large bureaucracy to an uncertain operating environment was for the organisation not to adapt, but to resist change, to become inward looking and to seek recourse in rules and regulations. In other words critics expected bureaucracies confronted with turbulence to make themselves more bureaucratic. Against the views of such critics, a Labor Government came to office in Victoria in 1982 with a platform to reform the SECV, to make it more efficient, effective and accountable to Parliament and the

community. But what did Labor achieve in the ten years to 1992? Did the SECV become more efficient and effective? Did the SECV become more or less bureaucratic and, if so, was this due to Labor or the SECV? These are the questions this thesis examines.

The study addresses these questions by examining three propositions drawn from the literature of critics of bureaucracy, namely Gouldner (1954), Burns and Stalker (1961), Crozier (1964), Niskanen (1973), Merton (1968), Perrow (1986), Bendor (1990) and Dunleavy (1991). These writers argue that bureaucracies do not learn from past mistakes, that over time bureaucracies are increasingly concerned with procedures and processes, and not results. Further, they argue that bureaucracies, which are best suited to stable conditions, seek to manage a volatile environment by becoming more bureaucratic rather than adapting. Finally, they propose that the endemic insular and inflexible nature of bureaucratic organisations can result in inappropriate decisions when they are faced with changed or turbulent conditions.

Surprisingly, while the study findings support the propositions for the first part of the period under review, this was not the case in the late 1980s and the early 1990s. In fact, the study concludes that the SECV took the initiative and led the way in making itself less bureaucratic and more responsive to its operating environment. This occurred while the Labor Government moved from an initial controlling and directing position to one where, by the early 1990s, it was responsible for ambiguous policy direction on energy matters and Government Business Enterprise (GBE) reform. During Labor's final years the SECV became the initiator of change. It did not reinforce the theoretical shortcomings attributed to bureaucracies and indeed behaved in a contrary manner. This represents the major finding of this study as it meant there was a prospect the SECV could have further 'reformed' itself and increased its efficiency over the 1990s. Instead, the decision was taken to sell it just as it was poised as a revitalised and streamlined organisation to meet the challenges of the future.

Background – Turbulent Times

In Australia the 1980s and early 1990s was a period of great turbulence for the SECV and the public sector generally. From the 1970s, Australian governments embraced new, private sector based approaches to managing their affairs and, at a much more fundamental level, revolutionised their sphere of responsibility. These trends had many manifestations including shifts into entrepreneurial activities, contracting out, commercialisation, corporatisation and privatisation. At the organisation level changes included the emergence of managerialism with its emphasis on corporate and strategic planning, program budgeting, performance measurement, linking rewards to outcomes and other non-traditional public sector tools. Simultaneously, organisations and management had to cope with significant societal and structural change as postmodern uncertainties supplanted the relatively known future of the modern era.

At the Commonwealth level, in the ten years leading to 1992, the Government either corporatised, privatised or partially sold such long term public bodies as Australian National Lines, Telecom, OTC, AUSSAT, Qantas, Federal Airport Corporation, Australian National Railways, Commonwealth Bank of Australia and Australian Airlines. The Government's corporatisation actions were described as improving market efficiency by putting 'government business enterprises on a more commercial basis, thereby improving resource allocation and reducing the potential for featherbedding' (Keating and Dixon 1989, 63).

State governments also embraced corporatisation and privatisation. The New South Wales Government in the late 1980s corporatised the Government Insurance Office (GIO), the Grain Handling Authority (Grain Corp.), the NSW Electricity Commission and the State Bank and announced that it intended to privatise a number of trading enterprises including the corporatised bodies GIO and Grain Corp (PBRC 1992, 88). State governments in Tasmanian, Queensland and Western Australia released discussion papers in 1991 on corporatisation, while in 1990 the Australian Capital

Territory had introduced a process to corporatise its GBEs (PBRC 1992, 88). The Northern Territory did not pursue a corporatisation policy, rather it commenced the privatisation of those bodies that did not require government involvement. The South Australian Government model was one where corporatisation had been favoured for many years: examples of this included electricity authorities (PBRC 1992, 88).

Australian governments' moves to corporatise and privatise were part of a worldwide phenomenon. In 1979 the United Kingdom under Margaret Thatcher 'embarked on a sustained program of privatisation of government enterprises and nationalised industries', the Canadian Government began privatisation in the early 1980s, while in 1986 New Zealand commenced a dramatic period of corporatisation (PBRC 1992, 86). A 1988 World Bank (1988) survey cited more than 80 countries involved in the privatisation (in some form) of over 1300 GBEs. Thus, in addition to the impact of a newly elected Labor Government in Victoria, for the SECV the 1980s also promised to be volatile and challenging as its traditional management methods were confronted with national and international forces for change.

Bases of the Forces for Change

At the hub of this worldwide push to 'reform' the public sector was the widely accepted theory of public choice. Put simply, public choice theory claimed that smaller government and the substitution of 'choice' for bureaucracy in a free market would result in a more efficient public sector and a more efficient economy (Stigler, 1975). Hughes (1994, 11) claims 'the most important economic theory applied to the bureaucracy is public choice theory'. The basis of this claim is the sharply different view of rationality under public choice compared with the view of the rational bureaucrat acting in the public interest.

Public choice theory claims that bureaucrats are motivated by self interest such as budget maximisation (Niskanen 1973, 23), and therefore, unless self interest and public interest are synonymous, a conflict emerges that results in bureaucrats quite rationally

putting their own interests first. In 1986 Dunleavy observed, 'public choice theories of bureaucracy, especially the budget maximisation thesis, have been influential in stimulating the drive towards privatisation in Britain and the USA' (1986, 13). Public choice theorists claimed that through streamlining the public sector to core responsibilities, and returning the balance to the private sector, the community would reap the benefits of private markets' observed superiority over public markets in providing goods and services. Governments around the world embraced this theory with a staggering zeal in the 1970s and 1980s. In Australia Corbett, drawing on Pusey's (1991) research, submits that 'public choice theory and other related versions of economic orthodoxy ruled the roost in Canberra in the 1980s' (1992, 72).

A concomitant bedfellow to public choice theory was principal/agent (agency) theory. This theory is used to describe a commonly found divergence of goals between managers (agents) and shareholders (principals). Developed with the private sector in mind, the theory aimed to explain the 'general agency problem' which Vickers and Yarrow (1995, 7) described as:

A situation in which a principal (or group of principals) seeks to establish incentives for an agent (or group of agents), who takes decisions that affect the principal, to act in ways that contribute maximally to the principal's objectives. The difficulties in establishing such an incentive structure arise from two factors: (a) the objectives of principals and agents will typically diverge, and (b) the information available to principals and agents will generally be different (for example, the former might not be able to observe some of the decisions of the latter).

The Industry Commission (IC) (1995) echoes the potential conflict between principal and agent:

Accountability problems arise where the principal and the agent do not share the same objectives. As the level of discretion provided to the agent increases, the opportunity to diverge from the principal's interests increases. The challenge for the principal is to design and implement mechanisms or incentives to induce the agent to act in the interest of the principal, rather than pursue its own interests (IC 1995, 80).

Agency theory thus seeks to develop incentives for agents to act in their principal's interests and has at its core a contractual arrangement which specifies rights and obligations. When applied to the public sector in the 1970s and 1980s, the theory stimulated contracting out and the introduction of employment contracts and performance appraisal systems, on the basis that such agency relationships would more closely approximate the perceived superior private sector incentive approach.

Together, public choice theory and agency theory fortified politicians, economists and those who favoured small government *per se* to reduce the size of the public sector and to revolutionise its methods of management. Of critical importance for this thesis is the fundamental premise that public choice theory and agency theory are opposed to the traditional notion of bureaucrats motivated by service in the public interest. Public choice sees this as illogical and claims that the ambition of individuals can override organisational interest. Indeed, one theorist claims that it is not possible for a bureaucrat to act in the public interest and that a bureaucrat's rational behaviour is necessarily founded in large part on self-interest (Niskanen 1973, 23).

An associated, though more nebulous issue was the rhetoric of the time. While much is made of rhetoric in economics as in McCloskey's (1983) celebrated work on the subject, it seems that the rhetoric of GBE 'reform' through commercialisation, corporatisation and privatisation was a powerful and influential force worldwide in the 1970s and 1980s. The use of the word 'reform' was consistently associated with the transfer of private sector experience to the public sector, with privatisation, and with smaller, less bureaucratic government. A prominent example of such rhetoric was employed by the head of the Commonwealth Finance Department, Michael Keating, who claimed, in respect to the introduction of managerialist techniques to the Commonwealth public sector, that 'most senior managers welcome the reforms' (1989, 123). Nethercote (1989), in an article partially titled 'the rhetorical tactics of managerialism', argues that Keating 'does not provide a source for this claim' (1989, 363).

By strict definition, 'reform' means *inter alia* 'to make better by removal or abandonment of imperfections' (Sykes 1982, 872); it means an improvement in the status quo. The persuasiveness of the term should not be underestimated. The impact of introducing a 'changed' or 'new' approach to public sector administration is far less compelling than the notion of 'reforming' the public sector. Yet, as shown in subsequent chapters, in the turbulent 1980s proponents of change consistently described diverse and, at times, untested hypotheses as 'reforms'.

Structural Change –The Panacea

A further force for change in the 1980s was the Commonwealth Government's belief that increased competition was necessary to achieve improved national economic efficiency. The Commonwealth aimed to promote competition when, in 1983 it deregulated financial markets, floated the dollar and removed exchange rate controls. This had the effect of increasing Australia's exposure to international pressures which, when combined in 1985-86 with declining terms of trade, stimulated the Government to find further solutions to improve Australia's international competitiveness (BIE 1996, 43).

In response to 'continuing and widespread concerns about inefficiencies in infrastructure industries' (BIE 1996, 43), the Commonwealth forwarded two key references to the Industries Assistance Commission (IAC) in 1988. The two references covered government (non tax) charges and the effects of domestic barriers to international trade in services. The Bureau of Industry Economics (BIE 1996, 43) summarised the IAC findings as revealing 'widespread problems with the pricing and provision of infrastructure services', and further, that the 'competitiveness of Australian businesses was being adversely affected by a number of inefficiencies across a range of public enterprises'. The IAC also found the causes of poor performance by GBEs included unclear and conflicting objectives, absence of competition and reliance on ineffective control and performance monitoring mechanisms (BIE 1996, 44).

In addition, the successor to the IAC, the Industry Commission (IC) also found, in a separate inquiry into energy generation and distribution, that for the electricity industry lack of competition was a major source of inefficiency and it recommended fundamental structural change (IC 1991a, 9). Such findings lent credible support to those in government and the community who favoured structural change of GBEs and their markets.

Thus structural change was promoted at the individual GBE level and also at the broader industry level. At the heart of the push for structural change at the organisation level was the impression that the private sector was moving away from traditional bureaucratic forms, while the public sector seemed to be lagging. Governments were keen to take the private sector output and performance based processes that seemed to be succeeding, and to apply them to the public sector. At another level, governments were keen to change traditional public sector roles and embrace market-based incentives; this involved exposing public services to competition through commercialisation and corporatisation and even privatisation.

Against this background of public choice theory and agency theory, and the influence of strong government support for GBEs to embrace the ways of the private sector, the notion the SECV could have averted corporatisation and/or privatisation moves had it so wished, must be questioned. The inexorable trend away from traditional forms of public ownership and the control of GBEs was a profound force on the SECV and its methods of management.

Theoretical Context of the Study

Critics have argued for decades that the methods of management of large bureaucracies such as the SECV were founded more on processes and procedures than on outcomes and results. As Hughes (1994) submits when referring to public administration:

The traditional model can be characterised as: an administration under the formal control of the political leadership, based on a strictly hierarchical model of bureaucracy (Hughes 1994, 25).

Both tenets were under attack in Australia and internationally in the 1980s.

Numerous writers, including Hughes (1994), Clegg (1990) and Perrow (1986), have argued that the formal bureaucratic model was not so much concerned with management to achieve specified outcomes as with administration to carry out instructions from a higher authority, such as government. Significantly though, the notion that elements of the bureaucratic model are present in almost all organisations is accepted by writers such as Chandler (1973), Pugh (1973) and Mintzberg (1979). It can assist to conceptualise organisations as being placed on a continuum of less bureaucratic to more bureaucratic. In the 1980s it was perceived by governments that the less bureaucratic private sector was generally at one end of the continuum and the more bureaucratic public sector at the other, and that the public sector needed to be pushed to shift its position. This push for GBEs to become less bureaucratic had fundamental implications for public sector management and the achievement of organisational outcomes.

The best-known twentieth century work on bureaucracy is that of Weber (1964) who identified a range of principles for the operation of a bureaucratic system based on the impersonal application of rational/legal authority. This work is examined in some detail in Chapter 2 as part of a methodology to define and explain the SECV management and organising approach at the start of the 1980s. Weber's characteristics of bureaucracy are also incorporated into a benchmark against which to measure subsequent modifications to that management approach to cope with a changing operating environment.

In addition to Weber, several subsequent writers on bureaucracy are also canvassed. The theoretical strengths and weaknesses attributed to bureaucracy as developed and refined by writers including Gouldner (1954), Merton (1968), Burns and Stalker

(1961), Crozier (1964, 1965), Mintzberg (1979), Morgan (1986), Perrow (1986) and Bendor (1990), are formed into an analytical matrix to assist with the examination of the extent of bureaucracy in the case of the SECV. Further to its bureaucratic methods, the SECV employed three prominent 1980s approaches to public sector management in the ten years to 1992. Those approaches are defined in this study as managerialism, commercialisation and corporatisation and each is investigated to determine its impact on SECV efficiency, effectiveness and extent of bureaucracy.

In this thesis, managerialism, commercialisation and corporatisation are each seen as a specific manifestation of the application of private sector practices to the public sector. These terms were used extensively throughout public sector literature in the 1980s yet they do not have universal definitions. Here, their use is in identifying separate, though overlapping phases in approach to management of the SECV in the ten years to 1992. The general meaning that will be attached to each in this thesis follows, while the rationale for each meaning is explored in some detail in Chapter 2.

Managerialism is concerned with management practices such as management by objectives, pay for performance, corporate planning, program budgeting and full cost recovery of government services (Corbett 1992, 235). Like managerialism, commercialisation is based on transferring private sector approaches to the public sector. Commercialisation seeks to achieve this by fostering a private sector 'bottom-line' approach to the management of GBEs with a focus on commercial objectives which may well be distinct from political or social objectives. Managerialism's focus on outputs, performance and clarity of objectives is taken further towards the private sector by commercialisation's focus on outcomes aimed at maximising the net worth of the organisation.

Corporatisation embraces the private sector 'feel' of managerialism and commercialisation and takes this to another level in that it changes the traditional relationship between governments and their GBEs. Under corporatisation, governments retain ownership but the GBE operates autonomously at the operational

level with its board accountable to Parliament through a shareholding Minister. The IC described this as utilities functioning as 'commercial entities at arms length from government, but accountable to Parliament' (IC 1991a, 9).

The three themes of managerialism, commercialisation and corporatisation are both separate and overlapping. Separate, in having the distinguishing features outlined, and overlapping in that there is a certain 'blurring at the edges'. This 'blurring' does not diminish their intrinsic separateness or their quite different implications for the SECV. This study will show that as the initial thrust of Labor's managerialism was accommodated by the SECV the organisation moved to a commercialisation phase with passive government support and finally the SECV led the push for its corporatisation. The SECV sought to become increasingly commercial in outlook and increasingly flexible in management approach, all the while seeking greater freedom from government control.

The study uses the management theory of Weber's bureaucracy, and that of its critics, to assist with establishing the characteristics of the SECV in 1982, and to predict a likely future for the SECV in a turbulent operating environment. Changes in those characteristics are then used to point to the changing extent of SECV bureaucracy up to 1992. This study also explores the impact of the Labor Government and the extent to which it fostered the management approaches of managerialism, commercialisation and corporatisation as opposed to the extent to which their introduction was driven by the SECV. This is particularly important as conclusions reached about the changing nature of bureaucracy are enhanced, so far as wider consideration is concerned, by a knowledge of who drove the change.

The SECV as a Case Study in Bureaucracy

A fascination with management responses to 1980s influences on the public sector and the consequent impact on organisational well-being, efficiency and effectiveness formed the catalyst for this study. However, to identify and evaluate all such

influences and actions, whilst an intriguing challenge, represented a task of monumental proportions. A focus was needed. This was provided in two forms.

First it was decided to select one organisation for detailed examination, the SECV. This had the advantage of forming a realistic task and yet one with the potential to yield valuable insights into public sector management and organisational behaviour generally. Second, it was decided to restrict the period under study to the manageable time frame of ten years. This focus provided the opportunity to draw conclusions about the forces on the SECV exerted by government and society and to evaluate how it reacted to those forces and how it was managed over the period. The study can provide a point of reference for other studies but it cannot and does not attempt to describe public sector management generally. The more modest, though still daunting prospect of researching a complex organisation over a ten year period was considered a sufficiently difficult challenge for this thesis.

However, rather than simply consider the impact of the trends of the 1980s on a public utility, it was decided that considerable advantages attached to embracing the Victorian Labor years 1982 to 1992. The Cain Labor Government elected in Victoria in 1982 was the first Labor Government in that State since 1955. John Cain was succeeded as Premier by Joan Kirner in 1991. The Cain/Kirner Labor Governments ended in 1992 with the election of a Liberal National Coalition Government.

The final decisions related to what to study within the SECV. There are many facets of management and a wide range of areas for study in any organisation. There was a need to strike a balance between a 'shotgun' approach to consideration of the organisation and a focus so narrow that key elements of the organisation were ignored. It was thus decided that the SECV should be considered within the general framework of the changing extent of its bureaucratisation and the relationship between this and the themes of managerialism, commercialisation and corporatisation. Given this framework, it was also decided that the topics for examination should include operational, financial and human resource management

as these are fundamental organisational components. Further, corporate and strategic planning, including medium to long term production and capital investment decisions, were considered intrinsic to an evaluation of corporate performance. Finally, for a 'rounded' study, management of the external operating environment including the community, but particularly the government, required close attention.

Study Objectives and Propositions

At the broader level this thesis aims to make a contribution to knowledge of public sector management in Victoria during the period 1982 to 1992. It also aims to provide an insight into the Labor Government's management ethos during that era which may prove useful for other studies. At a more specific level, the thesis employs bureaucratic theory to determine changes in the extent of bureaucratisation of a major Victorian public utility during the last years of its existence as a vertically integrated and intact operating entity. In particular, and within the context of the successive themes of managerialism, commercialisation and corporatisation, the aim is to research three critical areas of management over that time - corporate and strategic planning, management of the operating environment and management of operations, people and finance. In so doing the study seeks to establish whether or not the SECV became more or less bureaucratic and to determine how and why this occurred.

These elements were combined to form the following study objectives for the period 1982 to 1992:

1. To define the SECV management approaches and determine the appropriateness of those approaches in a rapidly changing internal and external operating environment.
2. To determine changes in the extent of SECV bureaucracy.

3. To evaluate operational performance, key strategic and development decisions and concomitant financial and human resource management strategies.
4. To contribute to an understanding of Victorian public sector management and the management approach of the Victorian Labor Government, particularly so far as the themes of managerialism, commercialisation and corporatisation are concerned.

To further focus attention it was considered critical to develop and respond to several propositions that seemed central to an understanding of the SECV and its performance over the period. Clearly, this had to facilitate research of the previously identified areas of management selected for investigation, while also meeting the study objectives. Three propositions were developed, from the study objectives and the literature on bureaucracy, to further concentrate this investigation of the SECV. These propositions concerned management, key decisions and external operating environment. They were:

1. The SECV culture and its bureaucratic approach to management would inhibit organisational flexibility and consequently would reduce its capacity to effectively predict, respond to and manage a rapidly changing operating environment.
2. The SECV's key corporate and strategic planning directions and operating and development decisions, and concomitant financial and human resource management strategies would not, on balance, be appropriate.
3. The inability of the SECV to accept and adjust to the Labor Government's management ethos would retard its progress as an organisation.

Research Methodology

This research draws upon a number of disciplines which individually pertain to particular areas of inquiry yet collectively form the basis for comprehensive organisational analysis. Elements of the fields of organisation theory and financial and economic analysis are brought together by the techniques of historical inquiry and case study to attempt to explain what happened to the SECV over 1982 to 1992 and why. Expectations of management behaviour and organisational outcomes are established after a review of bureaucratic theory. Those expectations are then tested against actual SECV practice and performance.

Much of the research in this study employs tools from the broad range of disciplines covered by managerial economics and organisation theory. The study brings together elements of the more numerate methods of inquiry of the former and the more qualitative approach of the latter. This combination of disciplines is necessary to build up a holistic view of the SECV and its operating environment, particularly as organisation theory as an explanatory tool is not without its critics.

At the heart of this criticism is classical organisation theory as propounded by Weber (1964), Taylor (1947) and Fayol (1949) with its logical, deductive approach to organisation and with rationality as its foundation. The resulting methods of organisation and work sought to optimise efficiency through the definition of tasks and hierarchies. It followed that improved definitions of positions and tasks would result in improvements in performance. Silverman (1972, 75) proposes that 'motivation' in such models 'stemmed from the assumption that man was an economic creature'. The flaw with this 'rational/economic' assumption according to Schein (1980, 53) is that it 'grossly overgeneralises and oversimplifies human behaviour'.

The problem with the classical perspective of organisation and rationality is well argued by Handy (1985, 13), who considers the ability of people to override 'rational' influences and react 'irrationally' together with the 'multiplicity of variables impinging

on any one organisational situation', to be two factors which mitigate the predictability of organisation theory. He proposes that explanation of organisational phenomena cannot be found in immutable laws but rather 'by the kind of contextual interpretation used by an historian' (1985, 13).

Palmer (1988, 150) and Dunphy and Stace (1992, 49) contend that an understanding of organisations and particular management approaches requires an appreciation of the commercial, economic, cultural and political forces that influence organisations. Kreigler et al (1988) criticise those who attempt to explain organisations from a reductionist perspective by using a single discipline. These could be sociologists concerned with behavioural aspects of groups or economists concerned with rational maximising behaviour. These views are accepted and considerable attention will be devoted to developing a broad contextual perspective for the SECV when organisation theory and other tools are used for analytical and explanatory purposes.

The need to consider an organisation in its context as part of a case study research methodology is well summed up by Yin (1989), who defines case study as an empirical form of inquiry which uses multiple sources of evidence to investigate 'a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident' (1989, 23). Yin distinguishes case study from history on the basis that, while history 'does deal with the entangled situation between phenomenon and context', it usually deals with 'non-contemporary events' (1989, 23).

Yin's distinction between case study and history based on the extent of contemporaneousness could be considered a little semantic. However, that distinction is less relevant in the case of the SECV, where it can be argued that, due to the contemporary nature of the period under review, 1982 to 1992, a case study analysis of the SECV approximates an historical inquiry. The similarity between case study and historical inquiry is further reinforced when the application of the two methodologies are compared. Yin suggests that case study can be used to

explain 'real-life' causal links, to describe a 'real-life context', to illustrate an 'intervention' or event and to explore those situations 'in which the intervention being evaluated has unclear outcomes' (1989, 23). Such objectives are fundamental to the purpose of historical inquiry which seeks to describe and explain the past.

But how to explain the past? Schedvin (1985) claims that a corporate history should include an understanding of organisational culture which includes a knowledge of the industry in which the organisation operates, its structure, the working environment and approach to industrial relations. He argues that 'all of these themes should build towards an understanding of decision-making and the path of the corporation through time' (Schedvin 1985, 1).

This thesis is a corporate history, in Schedvin's terms, as it seeks to explain the past and develop a rounded understanding of the SECV and its operating environment. However, it goes further than this in that as part of its use of historical method, it uses organisation theory to assist with an explanation and understanding of the changing extent of SECV bureaucratisation. In so doing it is entirely in line with case study methodology which employs theory for illustrative and explanatory purposes (Yin 1989, 37). However, this methodology cuts across the notion of historical method as espoused by Elton (1967) which is concerned with extracting the 'true facts' from the past. Elton's view is that history is concerned with two questions: 'exactly what evidence is there, and exactly what does it mean' (1967, 65). This view of historical method, according to Lee (1977), when referring to economic history, is based on the view that theory is not useful in the explanation of the 'true facts' of history (1977, 7).

Other economic historians, such as Fogel (1983), refer to Elton's views as 'traditional' history and argue the case that the study of history is advanced by the application of the 'quantitative methods and behavioural models of the social sciences' (1983, 24). Fogel had in mind cliometrics in economic history, when mounting his argument, but did point out that this approach of using theory as an

explanatory aid had spilled to other fields of historical inquiry. The difficulty for this thesis and the use of organisational theory as a descriptive and explanatory tool is the robustness of the theory. In the case of economic history, while there can be considerable argument about the predictability of economic models and economic theory generally, there is a myriad of empirical investigation aimed at testing economic theories. However, in the case of organisation theory there is much less empirical evidence to draw on with very few studies concerned with testing the robustness of the theory.

This study employs historical method to bring together and consider the many and varied elements that comprised the SECV and its operating environment.

Organisation theory, particularly as it relates to bureaucracy, will be employed as one element of this method to assist with the development of an understanding of the SECV and to explain its actions. Other elements include knowledge of the SECV's operating environment, organisation culture, the productivity of employees and a range of financial management and capital investment factors. The multi-disciplinary approach to explanation under the umbrella of historical method that this thesis employs, aligns with Yin's multiple sources of evidence. Those multiple sources are used in the case of the SECV to address the study propositions and to attempt to explain how and why it did what it did under the Victorian Labor Government and if this was in line with expectations of bureaucracies derived from organisation theory.

Sources of Information

Sources of primary and secondary information to fulfil the study objectives regarding the Victorian Government's management practices and their impact on SECV bureaucratisation involved a broad review of literature, public records and interviews with politicians and their staff, with managers and with academics. It was then necessary to build up data on the SECV from the myriad of available sources; this involved a review of published and unpublished internal and external literature generated by the SECV over the period. The next phase required a review of

literature on the SECV but from sources outside the organisation. This included government reports, private papers, studies, press articles, tribunal findings and various speeches and official pronouncements and a range of writings on the Australian electricity industry generally. In addition, reference was made to an extensive series of interviews undertaken with politicians and with key SECV officials. Those interviews are drawn from various publications, the work of other researchers and that of the writer.

Collection of written and oral material permitted significant cross checking and resulted in a considerable bank of information on the organisation. Importantly this information or evidence was collected from a wide variety of primary and secondary sources supplemented and enhanced by interviews. Interviews conducted or referred to were not tightly structured and had more of an open ended nature. This approach was critical as the principal purpose of these interviews was not so much to collect data or even corroborate it but to provide insights into events and decisions.

Where possible that data was sorted and collated and a preliminary analysis conducted. That preliminary analysis was aimed at investigating possible behavioural relationships between the SECV and Government and within the SECV as an adjunct to a purely institutional cause and effect methodology. This dual system is followed throughout this thesis and has the advantage of addressing the study propositions in a dispassionate manner and of fostering the identification of the impact on SECV bureaucratisation of associated behavioural dimensions. This was a considerable bonus analytically and an important aid to a deeper understanding of the SECV and its internal and external relationships.

Outline of the Study

There are eight chapters. Chapter 1 has provided a general introduction, specified the extent of the study and the propositions that will be investigated. It established the

structure of the study, its form and the theoretical and practical framework for the worldwide push to corporatise and privatise.

Chapter 2 briefly considers broad organisation theory as a preface to considering bureaucratic theory. It then focuses on bureaucratic theory and the claimed strengths and weaknesses of the bureaucratic form. It establishes the methodological and theoretical framework employed in subsequent chapters to understand the SECV and its culture and to explain the changing extent of bureaucracy. The chapter also explores in some detail the meanings of the terms managerialism, commercialisation and corporatisation in this thesis.

Chapter 3 presents a brief history of the SECV from inception to 1982. It provides an insight into organisational design and ethos at the start of the period under review, and develops a description of the SECV at that time as a bureaucratic and mechanistic organisation with a strong engineering focus and a culture of paternalism and independence. It contrasts this with the proposed Labor Opposition changes of 1980 and 1981 and sets the scene for an examination of the early Labor Government years. This chapter also identifies a range of major issues facing the SECV in the early 1980s.

Chapter 4 assesses SECV 'bottom line' financial and operating performance under the Victorian Labor Government and concludes that it was a period of steady growth in sales, gross profit and productivity. The chapter draws on a comprehensive analysis of SECV organisational statistics over the period 1982-1992 and on certain national statistics to permit comparisons with other Australian GBEs. This chapter, which is based largely on data analysis, isolates abnormal data movements and issues, such as SECV excess generating capacity and high debt levels, for closer examination and explanation.

Chapter 5 looks at the early years of the Cain Labor Government in Victoria, from 1982 to 1986, and its managerialist regime. It considers the methods employed to

'control' the SECV and to direct it towards energy conservation, demand management and new demand forecasting techniques. The chapter argues that the Labor Government lost an opportunity to reform the SECV, to reduce costs and the extent of costly excess generating capacity. Instead, costs continued at high levels, debt increased and erroneous decisions were taken to increase capacity. The bureaucratic SECV accommodated managerialism and its focus on output specification and performance measurement and moved on in a fundamentally unchanged manner. Though importantly, during this managerialist phase the SECV showed a preparedness to consult and collaborate with staff on a less bureaucratic future for the organisation.

Chapter 6 considers the period 1986 to 1989 under the broad heading of commercialisation. During this period Labor energy policy changed, with a reduced emphasis on conservation, and public sector indebtedness loomed as a political liability for the SECV and the Government. The Government became focused on economic growth and employment, energy issues declined in importance and the SECV was permitted to pursue a period of commercialisation at its own pace. By the end of the decade the SECV was still a bureaucratic and mechanistic organisation, though it had made itself decidedly less so and had employed a collaborative management approach in so doing. After seven years of Labor it could be argued that changes introduced by the SECV were largely superficial and the pressure for fundamental 'reform' that had been mounting for many years was not addressed. On balance though, the period of commercialisation was a period of slow and measured progress, rather than lost opportunity. The SECV used this time to restructure into 'business units' and develop strategies to devolve central control and dramatically change itself in the future. Further, it began the cultural change necessary for the move to corporatisation and it did, with an announcement of employment cuts of 20 percent, change the organisational ethos of a 'job for life'.

Chapter 7 examines the dramatic last years of Labor, from 1989 to 1992, when the SECV led the push for corporatisation and the first moves towards partial

privatisation while Labor procrastinated. During this period its traditional bureaucratic/mechanistic structure changed significantly and the number of employees was reduced from 21,551 to 14,827. This chapter argues that the SECV took the initiative to make itself less bureaucratic, more flexible and more adaptable to its operating environment. While debt remained a problem for the SECV and the Government, as did excess capacity, albeit to a lesser extent, costs were driven down and other efficiencies were made including divestment of non-core functions. This period positioned the SECV to gain efficiencies into the future. However, it also set the SECV up to be privatised by an incoming conservative government bent on that course.

Chapter 8 addresses the study propositions and concludes that, while the SECV continued its traditional approach to management for much of the period, it was prepared to move much faster on reform than the Labor Government. The SECV by its own volition made itself a less bureaucratic and more flexible and commercial organisation. Further, the chapter concludes that, while key financial and capital investment decisions in the 1980s were generally not appropriate, the Victorian Government drove poor decisions on debt, excess generating capacity and tariffs. By the time the Victorian Government looked to change its ideological position on issues such as corporatisation and equity funding of GBEs, it was too late, the Government was in full decline and was caught up in ambiguous policies and stultifying processes. In the final analysis, all that was achieved by SECV efforts during the 1980s to change its culture and introduce a commercial focus and by its corporatisation push in the early 1990s, was to position a streamlined and less bureaucratic SECV for sale by the incoming Kennett Government.

Conclusion

This study employs historical method to drive a multi disciplinary analysis of the management of Victoria's largest public utility over what amounted to the last ten years of its existence as a discrete, vertically integrated organisation. It traces the

impact of managerialism, commercialisation and corporatisation over the Labor Government years, and concludes that the traditional SECV bureaucratic/mechanistic approach and its decades old culture was modified from the mid 1980s and was fundamentally changed in Labor's last years.

Surprisingly the study demonstrates the preparedness of a large bureaucracy to comprehensively adapt to a turbulent operating environment and to change a decades old culture. How senior management focused on changing the SECV culture and the extent of bureaucracy, while managing an organisation with a structure and an ethos based on traditional bureaucratic principles, was a most revealing aspect of the study. The resolution of this apparent internal conflict provided an insight into the organisation dynamic where a management vision and an organisational culture are not necessarily compatible. Change was driven from the top but a participative model was also employed.

The major finding of this study was the willingness of the bureaucratic SECV to take the initiative to adapt and respond to a changed environment. The case of the SECV is a rejection of the proposition drawn from bureaucratic theory that bureaucracies faced with turbulence become more bureaucratic. The SECV reacted to a turbulent operating environment by making itself less bureaucratic. Of almost equal significance was the finding of the inability of the Labor Government to come to grips with its opportunities to fundamentally change the SECV in the 1980s, after promising to do so much in Opposition. Had action been taken sooner and had the Government been prepared to take some hard decisions in the 1980s, the financial and operational strength of the SECV (if not its fate) could well have been different by 1992.

The final conclusion is that the period of Labor was one of lost opportunity and of serious policy errors by the Government. The SECV took the initiative in what amounted to a Government energy policy vacuum and streamlined the organisation into a corporatised form. Together, the Government's policy errors and SECV

corporatisation produced a highly geared, restructured organisation that was able to be readily broken up and sold. While this contributed to the ultimate demise of Victoria's largest public utility, it also raises the question of the wisdom of that sale as the SECV was poised to reap the benefits of corporatisation and had shown a capacity to reform itself. It drove change from within and made itself less bureaucratic, perhaps it should have been permitted to continue to do so.

CHAPTER TWO

THEORETICAL FRAMEWORK OF THE STUDY

Introduction

Having suggested that the SECV was a bureaucratic organisation and that Labor was intent on reforming its methods of management and making it more accountable raises the need to examine more precisely the nature of the organisation and its bureaucratisation. How bureaucratic was it in 1982? What approach to management existed within that form of organisation? To answer these questions requires an analytical framework.

This chapter develops a theoretical framework to describe the SECV and the extent of its bureaucratisation. The chapter focuses on bureaucratic theory and the claimed strengths and weaknesses of the bureaucratic form to produce predictions of how a bureaucracy might cope with a turbulent operating environment. However, it also broadly considers organisation culture and more general organisation theory to provide a context for bureaucratic theory.

Having developed a methodology to describe the SECV in 1982 and to consider changes in the organisation over time, the chapter provides an explanation of the terms managerialism, commercialisation and corporatisation. These terms are used to describe three different but related approaches to management employed successively by the SECV between 1982 and 1992. The three terms do not have universal definitions and the focus in this chapter is on what they mean in this thesis.

The need to have a clear description of the SECV in 1982 is vital for this thesis. By having that clear description as a benchmark, changes to the organisation under Labor can be established. Organisation theory is not the only tool that will be used to describe the SECV in 1982 and subsequent changes to its organisation form and methods of

management. This study employs a multi-disciplinary methodology, of which organisation theory is part, to describe the SECV and to explain its actions and performance. However, organisation theory is a most important tool for this study because it permits objective predictions of how an organisation might have reacted to the turbulence of the 1980s and an incoming Labor Government. It also establishes a framework to test those predictions in the case of the SECV.

Too often organisations are described as 'bureaucratic' or by some other general term. This chapter addresses that issue and develops the tools, drawn from bureaucratic theory and its critics, to facilitate analysis of what 'bureaucratic' meant in the case of the SECV. This analysis is fundamental as it forms the basis for comparing how SECV bureaucratisation changed under managerialism, commercialisation and corporatisation. This chapter develops a methodology to empirically test in subsequent chapters bureaucratic theory against findings on the SECV.

Organisation Theory

Organisation theory is extremely broad, complex and controversial with a wide range of related elements. For this study the use of organisation theory will be restricted to those fields which help to explain how the SECV functioned both internally and in its environmental setting and the implications of managerialism, commercialisation and corporatisation for its management, structure and performance.

The relevance to Australian conditions of the great majority of literature on organisation theory can be a concern because it originated in other countries and is drawn from their cultural climate. The extent of formality of a German hierarchical structure could well be quite different from an American or Australian experience. Consequently it may be erroneous to directly translate international theory and research. Unfortunately, there is so little Australian 'theory' that a recourse to international theory represents the only significant reference point. Other concerns are equally fundamental, for example, while Weber's (1964) celebrated work on bureaucracy is

used throughout this study his 'ideal type' construct has been the subject of numerous attacks by writers such as Hempel (1952) who are highly critical of the use of typological methods of explanation. While Clegg (1990, 20) expresses concern that Weber's modernist theoretical apparatus is too restrictive to be a useful methodology to consider the post modern reality.

For these and other reasons, organisation theory is treated cautiously and not presented as a set of immutable laws. Equally, it is important to appreciate that organisation theory is not a series of untested hypotheses – it has evolved over time in an iterative manner and a body of knowledge has consequently developed as theory and practice have merged.

A Theoretical Context for Bureaucracy

As with many organisations in the early 1980s, the SECV's organisational form and management practices had their origins in the early decades of the twentieth century when there were three broad themes in management theory - bureaucratic, scientific and humanistic.

The Scientific and Humanistic Approaches

The 'scientific' approach, usually associated with Taylor (1947), employed research on standards and work methods to reduce production costs through the identification of the 'one best way' of doing each job. The 'scientific' focus was at the operational level, while the bureaucratic approach enunciated by Weber (1964) was concerned with administration and with management of organisational processes by officials occupying positions with precisely defined responsibilities and employing formal rules and procedures.

The scientific and bureaucratic approaches had an order and a logic expressed in procedures and processes designed respectively to improve productivity and to dispense objective decisions. The less tangible area of human behaviour in the workplace was

the focus of the 'humanistic' or 'human relations' school, which gained favour in the 1930s through the work of Elton Mayo on the widely documented Hawthorne plant studies conducted from 1927 to 1932. Mayo, according to Hughes (1994, 38), was the 'real founder' of human relations theory which, Clegg argues (1990, 27), propounded 'the importance of informal social organisation within formal organisation'. Hughes (1994, 37) proposes that the thrust of this theory was 'more on the social context at work rather than regarding the worker as an automaton responsive only to financial incentives'. As Schein (1980, 59) concludes, the Hawthorne study demonstrated 'the degree to which performance depended not on the individual alone, but on the network of social relationships within which he or she operates'.

In these formative years for organisation theory, the traditional scientific/bureaucratic approach was tempered by the human relations influence which, while discounted by some as superficial or as manifestly patriarchal, was nevertheless real and seemingly at odds with the theoretical underpinnings of the other approaches. The critical point is that all three approaches were employed by management to varying extents - they were not mutually exclusive. Many writers, including Hughes (1994), Pollitt (1990) and Morgan (1986), confirm that while seemingly in conflict, human relations and scientific management continue to co-exist and be influences on management practice. This is important for this thesis for it follows that if all three approaches can be applied in a single organisation, then not only can there be a different 'mix' at any point in time, but due to the dynamic nature of organisations, the extent of any one approach can change over time.

The scientific approach came to be known as 'management science' and evolved steadily over the first half of the twentieth century and was complemented by the emergence of 'operations research' which was widely employed during and after the Second World War (Buffa 1980). Conversely, the increased direct and indirect use of human relations theory, or what was to become 'behavioural science', from the late 1940s through to the 1960s, was dramatic by comparison with the pre-war years. This

is well summed up by Perrow (1986, 114), a critic of the 'human relations school' which he claimed 'has flourished and dominates organisation theory'.

Other Approaches

From the 1960s to the 1980s, further significant theoretical developments included consideration of the organisation as an open system, the socio-technical approach, the 'systems' approach, the notion of managerialism, agency theory, public choice theory and the importance of 'culture' (Silverman 1972; Herbert 1976; Palmer 1988; Morgan 1986; Perrow 1986; Clegg 1990; Pollitt 1990).

During the 1960s the sociotechnical approach to considering organisations emerged. This recognised the importance of both technical (management science) and social (behavioural science) systems in organisations and emphasised their interdependence (Morgan 1986, 43 - 44). The socio-technical concept was developed in the 1960s by Emery and Trist (1981) as an advancement on 'scientific' perspectives, where workers were depersonalised and seen as an 'instrument' and the 'human relations' school with its emphasis on the social and psychological dimension of workers and the workplace. Emery and Trist (1981) proposed that management could combine technology and workers in a synergistic manner. This 'sociotechnical' approach was also linked to an 'open system' concept with causal relationships between the organisation and its environment and the interaction of people, tools and techniques. According to Pugh and Hickson (1989,192), this 'illuminated' the 'dynamic nature of organisations' and the need for an organisational design that could 'accommodate environmental change'.

The sociotechnical approach in an open system was promulgated in the 1970s as the 'systems approach' where organisations were conceptualised as systems comprised of inter-dependent sub systems; human-cultural, objectives and values, technology, structure or form, operating environment and management (Kast and Rosenzweig 1970; Silverman 1972; French and Bell 1978; Morgan 1986). The systems model was predictive in a rudimentary way, as it demonstrated, through the interdependence of the

sub systems, that organisations are dynamic and changes in one sub-system have implications for other sub-systems and the whole organisation.

As indicated earlier, the scientific and humanistic themes persisted in modified and renamed forms but as part of the general understanding of organisation theory through to the 1980s (Perrow 1986; Donaldson 1985; Clegg 1990; Hughes 1994). The SECV exhibited signs of the scientific and humanist approaches, as would be expected of any large complex organisation. The notion of any organisation being exclusively one or the other is not seriously entertained by writers on organisation theory. However, it can equally be argued that management preference, culture or environmental setting will mean that the balance of the two themes can vary considerably between organisations or in the one organisation over time and that this can have implications for performance.

The 1970s and 1980s also saw the emergence of 'managerialism' in the public sector, with its emphasis on outcomes, managing for results, performance measurement and reward for performance (Corbett 1992; Pollitt 1990), several tenets of which were *prima facie* at odds with the fundamentals of bureaucracy. It is arguable that managerialism is not an organisation theory but rather a doctrine introduced to the public sector by governments committed to improving productivity by improving management practices. While Chapter 5 explores the impact of managerialism on a bureaucratic SECV, it is important to note that by the 1970s this was a significant mitigating force against the traditional thrust of public sector bureaucracy.

At the same time as managerialism rose in prominence, so too did what might be called economic theories of organisation (Perrow 1986, 219), agency theory and public choice theory. Public choice theory was steeped in the belief system of its proponents that private markets deliver superior outcomes to public markets. It was seized on by those who favoured small government and believed that the private sector was best placed to deliver traditional public sector goods and services such as electricity. Relying on

empirical evidence (largely from the United States) governments around the world embraced this doctrine in the form of corporatisation and privatisation.

Agency theory has equally significant implications for this research as at its hub is the proposition that interests of principals (owners) and agents (managers) are not necessarily aligned. It contends that bureaucrats in organisations like the SECV act in ways that will not deliver the best outcomes for owners. As Oster (1990, 108) so aptly puts it:

The central problem facing the owners of an organisation is to ensure that the decision makers...act as though they are maximising the objectives of the owners.

The theory claims to identify principal/agent 'problems' and to propose solutions where there is a problem. However the starting point seems to be that a problem will exist unless action is taken by principals to mitigate it. This raises the issue of 'character' and the 'virtue' of managers doing what is right because of the intrinsic worth of such action. This unselfish perspective of management was not seriously considered by the principal / agent adherents and economic rationalists of the 1970s and 1980s.

Organisation Theory and Culture

When attempting to describe an organisation one of the often referred to elements is organisational culture. Unfortunately, 'culture' is one of the more nebulous terms in the literature and because of this a working definition is required. Beckhard and Harris (1987, 7) suggest 'culture is that set of artefacts, beliefs, values, norms and ground rules that defines and significantly influences how the organisation operates', while Deal and Kennedy (1982, 57) see it as 'the way we do things around here'. These contributions suggest that the term 'organisational culture' is used to describe the norms, values, beliefs and the social system which sit at the centre of an organisation and give it a distinctive feel from other organisations.

French and Bell (1978, 14-15) define culture as 'the prevailing patterns of activities, interactions, norms, sentiments (including feelings), beliefs, attitudes, values and products'. They include 'products' so that technology is incorporated into their definition; this then embraces the procedures and methods of technology not just 'equipment'. Conceptually, French and Bell see organisations as comprised of a 'formal' system that includes structure, goals, policies, procedures and products and an 'informal' system which is largely culture. They call the formal elements 'overt' and the informal, 'covert', to emphasise that the overt are readily apparent while the crucial cultural elements in the informal system can be a 'hidden or suppressed domain of organisational life' (French and Bell 1978, 15).

However, as Goodstein et al (1992, 57) point out, certain views of culture are simply observations which ignore the fundamental issue of how such a culture emerged. They point to Schein (1985, 1990) for a more comprehensive definition which in essence sees organisational culture as a social system founded on a commonly held set of values and beliefs. Significantly, Schein attributes the particular social system to the way in which the organisation coped over time with its operating environment.

Goodstein et al (1992, 60) propose that culture arises from a system of beliefs which in turn form organisational values which result in 'situational norms' that can be observed in individual behaviour. They conclude that this 'normative behaviour, in turn becomes the basis for the validation of the beliefs and values from which the norms originated' (Goodstein et al 1992, 60). This has particular relevance for the SECV, as the period of the 1980s was one of a rapidly changing operating environment confronting a culture built on steady organisational growth and a known future. Such a situation presents the prospect for organisational culture to be out of alignment with new and imposed organisational objectives. In order to explore this conflict, and also to assist with an understanding of the SECV, the following meaning developed by Dunphy and Stace (1992) draws together much of the work presented and will be used in this study. They define culture as: 'the prevailing beliefs, values, symbols and rituals which define the ways members of the organisation behave' (1992, 50). In order to

develop a description of 'prevailing' SECV culture in 1982 this study will draw on an historical context of the origins of that culture. This methodology is employed in chapter 3 and is in line with the importance that Goodstein et al (1992) and Schein (1985, 1990) attach to the origins of culture and the environmental setting of its development.

It follows from this definition that if an organisation is confronted with a significantly different operating environment after many years of relative stability then a cultural change may be necessary. This can be achieved by either changing the culture of the existing members or by replacing them with new members who hold the new values and beliefs. Further, culture is not an isolated variable in an organisation, as Dunphy and Stace (1992, 44) point out: 'if structural repositioning and structural change are to be effective they must be reinforced by cultural change'. They describe the relationship between the two as: 'structure defines the key working and power relationships...while culture defines the key values that support those relationships'. While they see the importance of culture supporting structural change they also acknowledge that culture is 'strongly influenced by technology and work systems' and that together technology and work systems and culture 'largely define how work is done and how people relate to each other in doing it' (1992, 50). This dynamic interdependence is an important aspect of analysis in subsequent chapters.

Weber's Ideal Type Bureaucracy

The most celebrated twentieth century work on bureaucracy was by Weber (1964). Fundamental to Weber's ideal-type bureaucracy was rational/legal authority. Weber also described two other types of authority, traditional and charismatic (Weber 1964, 328; Hughes 1994, 28; Clegg 1990, 34; Silverman 1972, 74). The rational/legal typology was considered by Weber to be the most efficient form of organisation and became the basis of his theory on bureaucracy (Hughes 1994, 29; Abercrombie et al 1988, 22).

Weber established a range of 'ideas' necessary to give effect to rational/legal authority. He then developed 'fundamental categories of rational legal authority' (1964, 329-323). Those 'ideas' and 'categories' can be distilled into the following six principles of Weberian bureaucracy (Gerth and Mills 1946, 81-82; Hughes 1994, 29):

1. Organisational authority derives from rules founded on laws or administrative regulation;
2. A strict supervisor/subordinate hierarchy maintains authority;
3. The organisation exists separately from its employees, is impersonal and maintains documentation in the form of files so that it can rely on precedent to apply its rules consistently;
4. Administration or office management is a specialised function that requires expert training;
5. Officials in a bureau are engaged full time as a primary activity;
6. Office management follows general rules and consequently can be learned and carried out by any incumbent.

The basis of Weber's bureaucracy is that its impersonal application of rules and its rigid hierarchy mean that consistent decisions can be made over time and by different people. The term 'office' was described by Weber (1964, 332) as 'the combination of written documents and a continuous organisation of official functions', which he claimed was the 'central focus of all types of modern corporate action'. This raises the question of the position of the official which he specified to follow logically from his rational/legal perspective (Weber 1964, 333-336) and which can be summarised as:

1. The official is of higher status than ordinary citizens and is part of an elite;

2. The official is recruited on merit to a position held for his/her working life where duties are discharged objectively and free from personal considerations;
3. The official receives a fixed salary and has the prospect of promotion through the hierarchy to higher paid positions as his career develops. On retirement a pension is provided;
4. Salary is determined according to the 'status' of the position in the hierarchy and sometimes also according to length of service (Gerth and Mills 1946, 85-86; Hughes 1994, 31).

The organisational context for Weber's 'official' is that 'he is subject to strict and systematic discipline and control in the conduct of his office' (Weber 1964, 334). Given Weber's rational/legal typology, the six principles of his bureaucracy and his specification of the position of the official it is useful for analytical purposes to distil these into characteristics which summarise his theory.

Blau and Meyer on Weber's Bureaucracy

A classic text on the subject by Blau and Meyer (1971, 18-21) identifies six implicit characteristics of Weber's bureaucracy. These are:

A Division of Labour - Where organisational activities are arranged as official duties of specialised experts who are responsible for the efficient performance of 'their' area of responsibility.

Offices Organised in a Hierarchy - Where each higher office controls and supervises a lower one in an administrative hierarchy and each official is accountable for his own and his subordinates' decisions and actions. This means that 'superiors' have the right to issue directives to subordinates who are duty bound to obey.

Operations Governed by Rules and Regulations- Where rules and regulations define members' responsibilities and relationships in order to ensure uniformity in the performance of tasks irrespective of their complexity and the number of people involved.

Impartiality of Decision Making - Where officials dispense rational decisions which are devoid of personal considerations. Such impartiality results in equitable and efficient decision-making.

Employment as a Career - Where technical qualifications, protection from arbitrary dismissal and advancement based on seniority and achievement, results in employees identifying with the organisation and establishing an 'esprit de corps' among members and a loyalty to the organisation.

A Pure Bureaucracy Maximises Organisational Efficiency - Though not really a characteristic but more of an outcome this is the result of the coming together of the previously outlined characteristics to form a fully developed bureaucracy delivering superior administrative efficiency.

Blau and Meyer (1971, 22) argue that:

The combined effect of bureaucracy's characteristics is to create social conditions which constrain each member of the organisation to act in ways that, whether they appear rational or otherwise from his individual standpoint, further the rational pursuit of organisational objectives.

Blau and Meyer's interpretation of Weber's 'ideal' type bureaucracy and its 'characteristics' is supported in the whole or large part by a body of writers on the subject including Hughes (1994), Clegg (1990), Gerth and Mills (1946), Bailey et al (1986), Perrow (1986), Etzioni (1964) and Abercrombie et al (1988).

Extent of Bureaucracy

Based on Weber's model the 1982 SECV had bureaucratic characteristics, but how bureaucratic was it? How close to Blau and Meyer's characteristics was the SECV in 1982? Researchers including Pugh (1973), Blau and Meyer (1971) and Mintzberg (1979) consider that the extent of bureaucracy can be measured via a correlation of organisational characteristics with Weber's 'ideal' type model.

That nearly all organisations are to an extent bureaucratic is a clear rejection of the view that organisations are either bureaucratic or not bureaucratic. Chandler's (1973, 322) view of organisations is that 'they are, of course, all bureaucracies in Max Weber's sense of the word - hierarchies manned by professional officers - and so have features common to that social form'. As Clegg (1990, 40) argues, when presenting what he describes as the 'tendencies of bureaucracy', they are variable and 'there may be more or less...in any specific organisation'. Finally as Perrow (1986, 3) proposes, 'nearly all large complex organisations in the United States... are best classified as bureaucracies, though the degree and forms of bureaucratisation vary'.

Etzioni-Halevy (1985) and Blau and Meyer (1971) support this when arguing that Weber's 'ideal' type of organisation was a theoretical construct used to simplify or exaggerate reality to facilitate consideration of the concept of bureaucracy. This raises the notion of deviation from the 'ideal' which aligns with Weber's analytical model:

For the purposes of typological scientific analysis it is convenient to treat all irrational, effectually determined elements of behaviour as factors of deviation from a conceptually pure type of rational action... Only in this way is it possible to assess the causal significance of irrational factors as accounting for the deviations from this type (Weber 1964, 92).

That organisations deviate 'from type' coincides with the premise that they can exhibit a differing extent of bureaucratisation. This study will attempt to determine if the SECV was more or less bureaucratic and whether this changed over the period 1982 to 1992. It will do this by reference to the six characteristics of Weber's bureaucracy.

Of the six characteristics of Weber's bureaucracy, those related to 'offices organised in a hierarchy' are, unlike the others, not self-explanatory. This requires closer examination for, in many ways, the form of hierarchy determines the extent of bureaucracy.

Major Organisational Structures

There are two major organisational structures, functional and divisional. There is a third form, the matrix configuration, but this is really a hybrid of either functional or divisional structures with a variable internal hierarchy depending on task. Functional structures are characterised by narrow groupings of personnel resulting in an organisation built up around 'clusters' of skills and equipment and is typical of mass production or continuous flow process operation (Dunphy 1981, 262). Unlike functional specialisation, divisional structures subdivide the organisation by product, client or territory. Dunphy (1981, 264) argues that conflict between work units can occur under a functional structure as 'the organisation grows in size and complexity and faces a rapidly changing environment'. He claims that the more adaptable and flexible divisional structure, which emphasises decentralisation and delegation of authority, is often a successor to the functional structure as the sheer size of an organisation can make it unmanageable unless it is broken down into smaller, relatively independent units (1981, 267).

A further organisational design distinction is that between 'organic' and 'mechanistic' organisations which is based on the work in the 1950s of Burns and Stalker (1961). Mechanistic organisations are configured with 'specialised differentiation of functional tasks', whereas organic organisations, originally described as 'organismic' are less centralised, with fewer regulations, greater horizontal specialisation, rely less on managerial techniques and formal co-ordination and have much less precise task demarcation than 'mechanistic' organisations (Burns 1963, 45-47).

Burns argued that a mechanistic design 'is appropriate to stable conditions' and that mechanistic systems are the 'rational bureaucracy' of the past (1963, 44-45). Morgan (1986) reinforces this and proposes a rayon mill in a stable operating environment as an example of the type of organisation best suited to a mechanistic design. Morgan's rayon mill had a standard product, jobs were clearly defined and arranged in a formal hierarchy, authority was in line with position in the hierarchy and communication was conducted 'according to patterns specified in various rules and regulations; mainly vertical' (Morgan 1986, 53). On the other hand, Morgan argued that an electronics firm is an example where organic design was best suited as this facilitates the flow of external information to accommodate rapid technical change, this is best achieved by a more flexible less formal organisation (1986, 53). It follows that, for large organisations where adaptiveness to the environment is important, the organic approach in combination with a divisional structure is best suited. Whereas, for organisations in a stable operating environment, and concerned with the production of large quantities of a single product such as electricity the mechanistic approach is the most appropriate.

It also follows that a mechanistic structure with its emphasis on vertical relationships, impersonal co-ordination and control, and a heavy reliance on rules, policies and procedures is a 'more' bureaucratic approach to organisation design. Conversely, an organic structure based on horizontal relationships, an extensive use of personal co-ordination and loose rules, policies and procedures is a 'less' bureaucratic approach. This distinction is compatible with the work of Pugh (1973, 69) who identified 'six dimensions of organisation structure'. The first five 'dimensions' were the extent of: specialisation, standardisation of rules and procedures, standardisation of employment practices, formalisation and centralisation. Pugh's final 'dimension' is 'configuration' and is concerned with the extent of hierarchies and span of control and the number of central support staff. The 'extent' of Pugh's 'dimensions' determines how bureaucratic an organisation is. As Donaldson (1995, 39) proposes in a commentary on Pugh's work, 'bureaucracy is characterised by functional specialisation, standardisation and formalisation'.

A Bureaucratic Organisation Design

So far as organisational design is concerned, a functional and mechanistically configured structure is most in line with the bureaucratic model. This configuration has tall hierarchies, specialised functional groupings, central control and heavy reliance on rules, policies and procedures. When combined with the extent to which Weber's 'characteristics' are evident in an organisation, the extent to which it is functionally and mechanistically configured permits conclusions to be drawn about the extent of bureaucracy. Importantly, design, like Weber's characteristics, can vary over time and within an organisation. As Mintzberg (1979, 91) argues, depending on the stability and repetitiveness of work 'there can be considerable differences in formalisation of behaviour and bureaucratisation across the various parts of a single organisation'.

Claimed Weaknesses of the Bureaucratic Model

Considerable controversy has surrounded the bureaucratic model with claimed strengths by some considered as weaknesses by others. A hierarchical structure can lead to clear decision-making or unnecessary deferral to superiors. Subordinates anxious to please supervisors can conceal operational defects. Discipline and control is achieved but creative or non-conforming employees can be stifled and interaction between supervisor and subordinate is discouraged. Rules and procedures can provide certainty or they can foster inefficiency. Specialisation can lead to higher levels of expertise; it can also lead to insular objectives overriding organisational goals (Gouldner 1954; Merton 1968; Etzioni 1964; Crozier 1964; Blau and Meyer 1971; Etzioni-Halevy 1985; Perrow 1986; Clegg 1990).

While supporting the notion that nearly all organisations are to an extent bureaucratic, Perrow (1986, 14) also argues that one reason the 'ideal' form cannot be realised is because employees are not necessarily motivated by the organisation's best interests. He argues uncritically, that the bureaucratic response to influences on members behaviour such as environmental change or individual idiosyncrasies, is to seek to

control this phenomenon through the designation of specialised positions and through rules and regulations (1986, 47-48).

Clegg (1990, 38-40) outlined a number of 'tendencies' of bureaucracies which included 'specialisation' to ensure smooth work flows; 'hierarchisation' because of functional separation and precisely delegated powers; 'formalisation' so that rules can 'justify and produce legitimate action'; 'standardisation' of organisational action and 'centralisation' for coordination and control. These 'tendencies' support the argument that very bureaucratic organisations are well placed to deal with stable routine tasks. However, if significant change is expected of the more bureaucratic organisation, the ability to adapt is, according to critics, stifled by its rules and regulations, stable division of labour and specialised positions (Perrow 1986, 4-5). Perrow also proposes that when 'changes are frequent and rapid, the form of organisation becomes so temporary that the efficiencies of bureaucracy cannot be realised' (Perrow 1986, 4).

Weaknesses of Bureaucracy that will be Tested in the Case of the SECV

Listed below are the characteristics of Weber's bureaucracy as categorised by Blau and Meyer (1971) and a range of claimed weaknesses of that 'ideal' form that follow from and build on the preceding. It is these 'weaknesses' that will be tested against the case of the SECV.

Division of Labour - Strict division of labour reduces the ability to respond to external changes (Perrow 1986, 4). Specialisation and 'trained incapacity' fosters an insular outlook that can lead to 'inappropriate responses' to changed conditions (Merton 1968, 252-254).

Offices Organised in a Hierarchy - A 'tall' mechanistic hierarchy, synonymous with many highly bureaucratic organisations, reduces flexibility and is best suited to a stable operating environment (Palmer 1988; Morgan 1986; Burns and Stalker 1961).

Decision making on rules is centralised in the hierarchy and will 'tend to grow farther

and farther away from the field where those rules are to be carried out' (Crozier 1964, 189).

Operations are Governed by Rules and Regulations - Rules do not reduce the need for 'close supervision' but in fact reinforce it (Gouldner 1954, 178). Internal problems or external pressures lead to an increase in rules and internal control; bureaucratic organisations cannot correct behaviour by learning from errors (Crozier 1964, 187). The capacity to adapt is stifled by rules (Perrow 1986, 126). Adherence to rules becomes self-serving and reduces efficiency (Merton 1968, 253). Questioning organisational approaches is not rewarded, 'conformity' is (Herbert 1976).

Impartiality of Decision Making - Bureaucrats (agents) will act out of self-interest, it follows that an incentive is necessary for them to operate in the best interests of principals (Bendor 1990). Bureaucrats seek to maximise budgets as this is a basis for promotion (Niskanen 1971).

Employment is a Career and Salaries are Fixed - Contracts for employees (agents) based on performance is a superior stimulus (Bendor 1990). Promotion can be based on seniority not on ability (Hughes 1994, 46). Individual creativity is stifled (Hughes 1994, 47).

A Pure Bureaucracy Maximises Organisational Efficiency - Organisational efficiency is increased by managerialism, managing for results not administering a process and by measuring and rewarding performance (Corbett 1992; Pollitt 1990; Hughes 1994). 'Public choice' fosters competition which increases efficiency, bureaucracies stifle the creativity and flexibility necessary to compete while bureaucrats seek to maximise budgets. Bureaucracies are concerned with how things are done not with results (Osborn and Gaebler 1992, 14). The 'public choice' view of 'rationality' means people choose how to act based on 'the consequences for their personal welfare' not that of the organisation (Dunleavy 1991, 3).

One theme that can be distilled from a collective consideration of these 'weaknesses' is that the bureaucratic reaction to a turbulent operating environment is to become more insular and more bureaucratic. This means more rules, bureaucrats acting out of self-interest, further specialisation to cope with new functions and a taller hierarchy which, in combination, reduce the capacity of the bureaucracy to adapt. Based on the theory presented, it is proposed that a highly bureaucratic organisation will have difficulty in responding and adapting to a volatile operating environment and that it will seek to cope by looking inwards, developing more rules and procedures and further reducing internal flexibility. This proposition aligns with Perrow's findings that 'critics usually attack bureaucracy for two reasons - it is unadaptive, and it stifles the humanity of employees' (1986, 5).

Predictions and Analysis of Bureaucratic Behaviour

From the organisation theory presented, the prediction follows that highly bureaucratic organisations and those with a functional and mechanistic structure are better suited to a stable operating environment. This is at the heart of the study proposition of this research: that the SECV culture and its bureaucratic approach to management would inhibit organisational flexibility and consequently would reduce its capacity to effectively predict, respond to and manage a rapidly changing operating environment.

Consideration of a range of writers on bureaucratic theory suggests that an organisation that is highly bureaucratic is one where labour is specialised with authority and responsibility clearly established, positions are arranged in a formally structured hierarchy and promotion and selection is merit and seniority based with an emphasis on technical competence and formal qualifications. In such organisations members work for fixed salaries and rules and procedures are impersonally applied. Further, the organisational design considered to best suit the 'more' bureaucratic organisation form is 'mechanistic' characterised by centralised reporting, an extensive use of regulations, rules and procedures, precisely defined demarcations between positions, formal co-ordination and vertical specialisation. Critically, the

theory suggests that for the highly bureaucratic organisation a volatile operating environment can lead to inappropriate responses and for it becoming more bureaucratic and mechanistic (Merton 1968; Crozier 1964; Perrow 1986).

Mintzberg describes such highly bureaucratic and mechanistic organisations as a 'machine bureaucracy' which he characterised as having:

Highly specialised, routine operating tasks, very formalised procedures in the operating core, a proliferation of rules, regulations, and formalised communication throughout the organisation, large-sized units at the operating level, reliance on the functional basis for grouping tasks, relatively centralised power for decision making, and an elaborate administrative structure with a sharp distinction between line and staff (Mintzberg 1979, 315).

Stewart and Kimber (1996, 39) argue that 'an organisation which abandoned these characteristics would no longer take the form of a traditional Weberian bureaucracy. By tracking the variables identified by Mintzberg, we can trace any movement away from bureaucracy by the public sector'. They then argue that if a machine bureaucracy were to become less so it would be more decentralised, controls would be less formalised and procedures, tasks and roles would be less specialised, central administration would diminish in size, possibly accompanied by devolution, and there would be a shorter hierarchy (Stewart and Kimber 1996, 39). This methodology of 'tracking variables' of the 'characteristics' of bureaucracy is in line with the analysis that will be employed in this thesis to examine the changing extent of SECV bureaucratisation.

It is important for analytical purposes to acknowledge that Mintzberg considered his machine bureaucracy to be 'the structure that Max Weber first described' (1979, 315). This reinforces the analysis in this chapter that derived a similar set of characteristics to Mintzberg's machine bureaucracy from Weber's original work to describe a 'highly' bureaucratic organisation. It follows that the extent to which the SECV approximated the characteristics of the 'machine' or 'highly' bureaucratic

organisation is also a measure of the extent to which it approximated Weberian bureaucracy. It further follows that the extent to which the SECV was highly bureaucratic in 1982 is a legitimate basis to forecast future behaviour based on bureaucratic theory and the criticism of Weberian bureaucracy presented in this chapter.

To simplify analysis in subsequent chapters, this study groups the characteristics of bureaucratic/mechanistic organisations developed in this chapter and as summarised by Blau and Meyer (1971) and Mintzberg (1979) under three headings. Those headings are; Employment is a Career (includes the basis of recruitment, promotion and salary setting); Structure and Division of Labour (includes hierarchical arrangements and extent of functional and specialist organisation); and, Rules, Regulations and Decision Making (includes the extent of central control, internal and external impartiality and extent of mechanistic management methods). It is changes in these three groups of characteristics that will be analysed to assess changes in the extent of SECV bureaucratisation, and to therefore test the claimed weakness of the bureaucratic form in a volatile environment.

Managerialism, Commercialisation and Corporatisation

In addition to the underlying methods of management of the SECV which will be examined by investigating the extent of bureaucracy, there were three approaches to management that were successive themes in the SECV from 1982 to 1992. Those approaches to management were managerialism, commercialisation and corporatisation. All three had implications for organisational performance and for the extent of SECV bureaucratisation. Unfortunately they do not have universally accepted definitions. The meaning that will be attached to each approach in this study follows.

Managerialism

Pollitt considers that managerialism is an ideology 'with concrete and immediate consequences' (1990,nn). He proposes:

Managerialism is a set of beliefs and practices, at the core of which burns the seldom tested assumption that better management will prove an effective solvent for a wide range of economic and social ills (Pollitt 1990, 1).

Pollitt argues that these 'beliefs' are founded on productivity improvements as the driver for social advancement and that societal improvement will derive mainly from increasingly sophisticated technologies in concert with a committed labour force. In this mix, management 'plays the crucial role in planning, implementing and measuring improvements in productivity' and must be given sufficient scope to do so (Pollitt 1990, 2).

This view of managerialism is narrower than some. It is in line with that espoused by Keating (1989), when commenting as head of the Commonwealth Department of Finance on the previous six years of reform in public administration. Keating described those years as having a focus on managing for results, 'our aim has been to focus management attention on the purposes of programs and the cost-effective achievement of outcomes rather than simply on inputs and processes' (Keating 1989, 124). Keating also proposed that managing for 'results' required the removal of constraints from managers which in turn had to be accompanied by increased accountability on the part of those managers (1989, 125).

Corbett (1992), while acknowledging the difficulty of definition, extends the 'beliefs and practices' in Pollitt's definition by specifying the core 'practices' of managerialism. These are:

Corporate planning; management by objectives; program budgeting; program evaluation; performance indicators; performance appraisal and

remuneration varied according to assessments of individual employment, contract employment; cross charging between departments; "user pays" and full-cost pricing of government services. (Corbett 1992, 235).

It is this relatively narrow view of managerialism that this thesis adopts. It means that for this study, managerialism is a focus on 'how' the SECV was managed with regard to what Corbett (1992) describes as managerialism's 'practices'. It distinguishes these from decisions on 'what' was to be managed: these are discussed separately.

Other definitions of managerialism, which are wider than Pollitt's, vary from Corbett's' view through to that of Hood (1991), and Hughes (1994) who see managerialism as part of 'new public management' and as also embracing 'what' the organisation manages. As the distinction between how an organisation manages and what it manages can become blurred the more comprehensive definition has an attraction. However, the notion that managerialism extends beyond methods of management with a focus on outputs as stipulated by Corbett, to include fundamental structural change via corporatisation/privatisation goes too far. A dividing line is needed. The managerialist regime introduced by Victorian Labor in 1982 did not mention privatisation. In fact such a prospect would have been anathema to many managerialists in the Labor Government which was driven by a Keynesian welfare economics approach to public policy.

The methods used by the newly elected Labor Government to attempt to direct and control the SECV included almost all Corbett's 'practices'. Further, Labor in 1982 and 1983 changed the composition of the SECV Board, legislated organisational objectives and introduced an externally appointed general manager in an attempt to change organisational culture and to give effect to its managerialist requirements. Labor also encouraged commercialisation to reform the SECV from the mid 1980s. Though, unlike managerialism, commercialisation was a change that was driven more by the SECV than Labor.

Commercialisation

Commercialisation happily coexists with the 'practices' of managerialism. This coexistence is unsurprising given that commercialisation seeks to give a commercial or private sector 'feel' to an organisation and the tenets of managerialism are also drawn from the private sector.

Consequently it is important to clearly establish what was meant by 'commercialisation' in Victorian government circles in the mid to late 1980s. This is in part assisted by clarifying what it was not. Specifically it was not corporatisation where the GBE aimed above all else to become legislatively separate from government and to operate as an efficient competitor in a deregulated market. Rather, commercialisation in the Victorian case was a 'half way house' between Labor's early managerialism and the corporatisation push of the late 1980s and early 1990s. Commercialisation was concerned with increasing the technical efficiency of a public sector monopoly such as the SECV through the application of private sector methods of management and operation and to this extent was akin to managerialism. There was, though, one significant differentiating feature: commercialisation required a cultural shift from public sector objectives to private sector 'bottom line'.

Hilmer (1993) defined commercialisation as referring to:

Efforts to introduce commercial arrangements, including the application of user fees; it does not necessarily involve a change in the formal structure of the organisation (such as corporatisation) (Hilmer 1993, 12).

Significantly then, commercialisation raises a number of fundamental issues; principal among these is that the very nature of commercialisation requires GBEs to have commercial objectives as distinct from political or social objectives. This can give rise to conflict for Ministers who must attempt to juggle community service obligations and accommodate broader policy issues and a commercially oriented management focused on the 'bottom line'.

Domberger (1993) demonstrates the overlap between commercialisation, managerialism and corporatisation when referring to public sector 'reform'. He submits:

This type of reform involves specifying tighter performance requirements such as profit targets and promoting a commercial management culture within the enterprise. In Australia and New Zealand this kind of reform has become known as "corporatisation" (Domberger 1993, 61).

Domberger goes on to identify five principles of corporatisation. Two of these, clarity of managerial objectives and performance monitoring with an independent assessment of outcomes, were part of Victoria's Labor managerialist regime. A third principle, not employed by Labor, managerialist controls and minimum external controls or 'room to manoeuvre', is, in Pollitt's view (1990, 2), one of the defining features of managerialism. This freedom to manage also aligns with Keating's removal of constraints on managers (1989, 125). Domberger's final two principles were rewards and sanctions to improve performance and competitive neutrality. The former was part of the corporatisation period in the SECV. The latter, competitive neutrality, is often considered one of the defining features of a fully corporatised GBE.

Commercialisation was a philosophical advance on managerialism for GBEs. It embraced managerialist concern with outputs, performance monitoring and clarity of objectives but had as a lynch pin managerial focus on commercial outcomes. Put simply, commercialisation is where management makes key operational decisions with the objective of maximising the net worth of the organisation. Managerialism and close government control, though not preferable theoretically, can sit quite well together. Alternatively, there is a *prima facie* case to suggest that commercialisation and close control may not sit well together, as conflict of organisational and government objectives are a real prospect. It further follows for agency theory devotees, that where there is less control, a system of rewards and sanctions is

required to focus management's mind to perform against core objectives. While the SECV was not commercialised under Labor as a result of directives, the extent of government control is an important distinction between commercialisation and corporatisation. Full corporatisation allows less scope for government to direct 'how' a GBE should manage than does commercialisation.

Corporatisation

Commercialisation sought to bring a private sector 'feel' to bureaucratic GBEs with the objective of increasing technical efficiency yet not going so far as the formal elements of corporatisation. The Industry Commission (IC) (1995) sums up this distinction: 'commercialisation though variously defined generally involves a government directive to a public agency or authority to conduct all or some of its operation, as far as possible, on a commercial basis' (1995, 280). The IC described corporatisation as a situation where 'utilities were required to function as commercial entities at arms length from government but accountable to parliament' (IC 1991a, 9). 'Administrative reforms', such as those that flow from managerialism and commercialisation, were defined by omission rather than inclusion as those reforms 'directed at achieving improvements without changing ownership or industry structures' (IC 1991a, 3).

The IC elaborated and drew parallels between administrative reform or change and increasing efficiency through more 'commercial' approaches to management, and cited the SECV as an example of a utility that had realised significant benefits through this process (IC 1991a, 3). Corporatisation was claimed to go further and 'encourage more prudent assessments of resource use leading to increases in productive efficiency', and as having the added benefit of improving labour productivity by increased use of external contractors (IC 1991a, 10). The IC also concluded that corporatisation would lead to improved evaluation of new investments and improved pricing practices (IC 1991a, 12). It saw corporatisation as an advance on commercialisation in this respect.

The Victorian Parliament's Public Bodies Review Committee (PBRC) in a report to Parliament on corporatisation of the SECV devoted considerable attention to a definition of 'corporatisation', finally arriving at the conclusion that it has two related elements:

First it is the process of administrative reform of the management and work practices, the organisational structure (control and accountability) and the financial structure of the government enterprise.

Secondly, it has the effect of creating a competitive market if one does not exist. The market-based economies have demonstrated, even with their imperfections that they can be effective in meeting community expectations. (PBRC 1992, 20).

The difficulty with this definition is that 'administrative reform' can exist under any configuration, from traditional state ownership and control to corporatisation, and in fact in the SECV case commenced in 1982 with managerialism. The second part of the definition sits well with the view of corporatisation as an extension of commercialisation. However the definition does not address the basic issue of the relationship with the government. The IC does this in part when it proposes, 'corporatisation aims to convert a public enterprise into an organisation which is as similar in terms of its objectives, incentives and sanctions to a private firm, as is feasible, while retaining public ownership' (1995, 280).

In 1991 the SECV unequivocally set out what it saw as corporatisation:

The SEC considers that corporatisation will help achieve a more competitive and accountable organisation, which is also customer responsive. The Government, whilst retaining ownership and ensuring accountability of the SEC through policy instruments, performance measures, objectives and targets, would be relieved of the necessity for detailed involvement in the day-to-day operational activities of the SEC (SECAR 1991, 19).

In a separate report, the SECV concept of corporatisation was extended to include removal of the 'maximum' community service obligations, tariffs to be set commercially within a government framework, the board to be accountable to Parliament through a shareholding Minister and for participation in a competitive electricity market (PBRC 1991, 14-15).

The SECV perspective embraces the key elements of the IC view of corporatisation as a fundamentally different concept to managerialism and commercialisation because of its changed relationship with government. This SECV perspective is the general meaning that will be attached to the term corporatisation in this thesis. However, it is critical to note that, by this strict definition, the SECV was not corporatised under Labor as the legislative formalisation of a changed relationship with the Government did not occur. This study will argue though, that in all but this most formal sense, the SECV by 1992 was a corporatised body so far as its relationship with Labor and its readiness for formal corporatising legislation was concerned.

Conclusions

This chapter had developed specific meanings that will be attached to the management approaches of managerialism, commercialisation and corporatisation in this study. Those approaches were employed successively by the SECV and had implications for its performance and the extent of its bureaucratisation. In essence managerialism is a set of practices including corporate planning, program budgeting and performance management aimed at bringing a private sector focus on outcomes and results to the public sector. Commercialisation embraces the elements of managerialism but goes further in bringing a private sector 'feel' to the public sector with a focus on commercial decision making and a 'bottom line' return. Corporatisation is where utilities function as commercial entities but at a distance from government, with accountability to Parliament. Formal corporatisation requires

this accountability to be encapsulated in legislation. This thesis will argue that by 1992 the SECV was corporatised in all but this formal sense.

In subsequent chapters each management approach is looked at in turn and matched against the characteristics of bureaucracy that emerged from the literature review in this chapter. Those characteristics have been grouped for analytical purposes under the headings of: Employment is a Career; Structure and Division of Labour; and Rules, Regulations and Decision Making. These headings embrace a range of characteristics such as the basis of recruitment, promotion and salary setting, extent of specialisation, hierarchical arrangements, degree of formal coordination and extent of central control. Changes in these characteristics over time thus becomes a measure of changes in the extent of SECV bureaucratisation.

The capacity to assess changes in the extent of bureaucracy is a powerful analytical tool. When combined with the characteristics of bureaucracy that facilitate a clear assessment of the SECV's bureaucratisation in 1982 the capacity to assess how this changed over time, represents a solid benchmark against which to match the claimed weaknesses of the bureaucratic form. Of particular interest is the claim that bureaucracies are best suited to stable conditions and that they react to a volatile operating environment by increasing the extent of their bureaucratisation. The capacity to assess how bureaucratic the SECV was in 1982, and if this changed in the volatile 1980s and early 1990s, means that this case study can also empirically test this theoretical and ideological criticism of the bureaucratic form.

CHAPTER THREE

ORGANISATIONAL AND MANAGERIAL CHARACTERISTICS OF THE SECV TO 1982

Introduction

This chapter defines the SECV approach to management in 1982 and uses organisation theory to assist with this. This not only results in a definition based on SECV characteristics at that time but has the added advantage of establishing a theoretical 'benchmark' against which to measure future changes in those characteristics and therefore changes in the extent of bureaucracy.

A second thrust of the chapter is to describe SECV culture which then builds on the definition of management approach to develop a rounded description of the SECV in 1982. To assist with the definition of management approach and the description of culture, the chapter draws on a brief history of the SECV since inception.

The historical perspective of the SECV presents the case that the approach of the SECV's first full time Chairman and General Manager, Sir John Monash, had clear parallels to bureaucratic militaristic organisation, which this study argues was pursued by the SECV to the 1980s. It also presents a number of examples of patriarchal management methods and of the embedded nature of an SECV engineering culture based on growth in generating capacity. In addition, the consideration of SECV history assists in identifying a range of key issues facing management in 1982.

The chapter also considers the Labor Opposition in the late 1970s and early 1980s. There are two reasons for this. First, it identifies in some detail the considerable

extent of change that the SECV could have expected under Labor and raises the issue of the organisation's ability to cope. Second, it establishes what Labor in Opposition claimed it would do, which is useful for later chapters which consider what it actually did.

That the chapter concludes the SECV was a highly bureaucratic, mechanistic, engineering dominated, patriarchal organisation is perhaps not surprising. Nor is the emphasis on conforming and 'doing the right thing' and being rewarded for it as a lynch pin of organisational culture. It is suspected that this description could have fitted in large part many GBEs at the time, particularly the large utilities in Victoria. However, it was crucial to unequivocally establish this in the case of the SECV as the description developed was a fundamental benchmark for this thesis as a basis of analysis to test for subsequent changes in the extent of bureaucracy. That description was also used to establish theoretical expectations drawn from organisation theory that a highly bureaucratic SECV would not cope well with what proved to be the turbulent 1980s, and would make itself more bureaucratic. Those expectations of SECV behaviour and changing extent of bureaucracy are tested against the reality of SECV actions in future chapters.

Origins of the SECV

For the first two decades of the twentieth century there was mounting concern in Victoria at its dependence on black coal imported from New South Wales for electricity generation. This concern was twofold. There was a vulnerability to variable supply, due to disruptions in the strike prone New South Wales coal and transport industries, and the price of black coal was rising.

By 1918 the situation was such that the Victorian Premier, HSW Lawson, introduced a Bill aimed at establishing Electricity Commissioners to control the range of public and private organisations generating electricity at the time. The Bill also required the Commissioners to report on the best way to develop a unified electricity system

capable of producing plentiful and cheap power as a stimulus to industrial development. Though the resultant legislation, the *Electricity Commissioners Act 1919*, was reduced in force through amendment, it was supported by sufficient funds for the three Commissioners to address the task of determining how best to end Victoria's dependence on black coal.

The first Chairman of Commissioners was Thomas Lyle, a mathematician and scientist who had turned to a business career and, at the time of his appointment, was a director of the Metropolitan Gas Company. The other two Commissioners, George Swinburne and Archibald McKinstry, were both engineers (Edwards 1969). The Commissioners' immediate problem was that while Victoria had abundant brown coal resources, particularly in the Latrobe Valley, its high moisture content meant that it was an inferior fuel to black coal. However, in May 1919, the Commissioners' attention was drawn to German research claiming advances in generating electricity from brown coal. Through the Premier, a request was made for Sir John Monash, a civil engineer and First World War Lieutenant General who was in England at the time demobilising Australian troops, to investigate and report on these claims. Monash was able to advise that the technology could be readily adapted to Victorian coal (Edwards 1969).

On his return Monash assumed the position of General Manager of the Electricity Commissioners' untitled organisation which by then had been provided with funds to pursue the generation of electricity from Morwell brown coal. In 1920 further legislation provided for the position of a full-time chairman and three Commissioners and established the SECV. Monash was appointed to the full time position of Chairman and General Manager (Edwards 1969). The SECV was responsible for generation and supply of electricity, regulations regarding its use and winning coal for the State.

There followed several years of determined activity by the new body under Monash's single-minded leadership. During these years, political and public scrutiny and

criticism were common and ranged from concerns about expenditure levels to Monash's perceived empire building (Edwards 1969). When, in June 1924, Melbourne received power generated from Victorian brown coal at Yallourn it must have been particularly satisfying for Monash to comment: 'I promised that Melbourne would have power from Yallourn in the middle of 1924. I have redeemed that promise' (Edwards 1969, 86). This new capacity, when combined with the increased generating capacity of the SECV Newport power station, meant that the SECV was able to report the achievement of its major organisational requirements of certainty and continuity of supply, capability of expansion, economic soundness and independence of sources outside Victoria (SECAR 1925, 7; Evans 1992).

The Monash Legacy

In these formative years there had also developed a range of management practices and an organisational culture which remained in force, in part at least, to the 1980s. No single influence appears to have had greater impact in this area than Monash who employed a classically bureaucratic approach to management.

Monash was the public face of the SECV. His charismatic and determined leadership, combined with his highly bureaucratic management style continued to influence the organisation long after his death in 1931. Charles Trethowan (1991, 45), recruited by the SECV as a fifteen year old in 1941, and Chairman and General Manager from 1974 to 1982, considered that Monash's paternalistic management style was evident after the Second World War and that his drive for organisational autonomy still characterised SECV culture in the late 1970s. The Monash approach to the chain of command is exemplified by a memorandum to department heads in 1926, where he stated with regard to local superintendents, that they 'shall loyally, fully, freely and without any reservations submit themselves to the overriding local authority' of the senior Latrobe Valley official, the General Superintendent (Edwards 1969, 174; Evans 1992).

In addition to Trethowan's views on Monash's influence, Monash brought a meticulous and orderly approach to the formative years of the SECV. As Edwards (1969, 58) observed, 'by modern business practice, Monash might be considered to have dabbled in too much detail'. He cited, as examples of Monash's approach, his method of specifying precise courses of action on how the Yallourn township should be governed and his preparation of 'four single-spaced foolscap pages setting out the duties of the newly-appointed Industrial Officer' (Edwards 1969, 58). Drucker (1984, 54), described the Monash approach as characterised by 'energy, speed and attention to detail'. The SECV, in a commentary of the issues surrounding management of the organisation and the need to be systematic reported in 1979 that, 'almost from the beginning, Sir John Monash's genius for military organisation imposed an army structure which, nearly 60 years on, is still evident' (SECN236 1979, 12). Monash established the SECV in the bureaucratic mould with top-down centralised control as part of a mechanistic organisation structure, and that form of organisation continued through to the early 1980s.

Emerging Issues

At the end of the Second World War the SECV was a large, vertically integrated statutory body with a history of rapid expansion in organisational size and output. It purchased and mined coal, produced electricity (and briquettes) and marketed its products at the wholesale and retail levels. Ten years after formation in 1918, the SECV employed 2,768 people: this increased 430 percent to 12,094 by 1948 (Evans 1992, 30). Over the same time electricity generated increased fivefold from 380 gigawatt hours (GWh) in 1928 to 1,932 (GWh) in 1948 (Drucker 1984, 73).

Rationing

These significant rates of growth of the organisation and its principal product, electricity, were major management issues for the SECV throughout these early years. However, in the mid 1940s there was a far more unsettling and, ultimately, greater influence on management ethos: rationing of electricity necessitated by excess

demand. The SECV, in a document generally available to the public 'Why Electricity Rationing', claimed that its inability to meet demand was lack of fuel exacerbated by 'the prolonged restraint placed by other authorities under war time powers upon the Commission's planned use of its own product, briquettes' (SECV 1946, 1; Evans 1992, 37). Rationing also occurred over the next seven years (Kellow 1996, 131).

This inability to meet Victoria's demand for electricity was of particular importance as secure electricity supply was a fundamental organisational purpose. Significantly though, the SECV in 1946 had both raised the crucial issue of the inadequacy of reserve generating capacity for future supply and announced the adoption of a ten year plan to increase 1945 generating plant capacity by 75 percent (Evans 1992, 182). However, the immediate issues in the post war years were that the SECV could not supply existing peak demand and it did not accept responsibility for this:

Electricity rationing in the present circumstances is a governmental function because the existing situation is caused and dominated by shortage of solid fuel in this State with consequent repercussions beyond the range of Commission responsibility (SECVAR 1946, 34).

The Labor Government of John Cain senior did not share the SECV's view of the onus of responsibility for rationing and in 1947 it announced the appointment of a Royal Commission into Electricity Supply.

Headed by Judge LEB Stretton, the Royal Commission was to investigate *inter alia* the capability of the SECV to meet existing and future electricity demand and the appropriateness of its constitution and organisational arrangements (Edwards 1969, 166; Spaul 1984, 17). The appointment of a Royal Commission, together with SECV attempts to attribute the need for rationing to the State Government, raises questions about the relationship between the SECV and the Victorian Government at the time. The Royal Commission found evidence of poor demand forecasting by the

SECV, which meant electricity shortages for some years ahead, and was also critical of its methods of management and an apparent friction between various levels in the organisation (Edwards 1969, 170; Spaul 1984, 18).

In summary, the key issues facing SECV management in the immediate post Second World War years were the management of sustained organisational growth, a strained relationship with the Victorian Government, fuel shortages and insufficient reserve generating capacity and rationing.

The Shift to Excess Generating Capacity

By the late 1960s the SECV was facing a new challenge and new criticism, this time associated with excess generating capacity. While insufficient capacity in the immediate post Second World War years and excess capacity some fifteen years later were opposite problems, the cause was common - an inability to match supply and demand. Clearly, this match is not easily achieved since the development lead time for large power plants of the type the SECV constructed is ten to fifteen years. It follows that power plant construction was based on forecasts of supply and demand ten to fifteen years ahead. The SECV and successive Victorian Governments had traditionally addressed this problem by forecasting most likely future demand and building big power plants with comfortable capacity margins. This was a risk averse but costly strategy, as the SECV developed a number of forecasts of future demand in the 1960s and 1970s which proved to be over-optimistic, and then commenced construction programs based on these.

The contrast between the years before and after the 1970s is evident when Maximum Coincident Demand (the peak demand on the system at any point in time) is taken as a percentage of Installed Capacity. SECV annual reports divulge that the highest recorded demand on the system, without provision for breakdown of the installed capacity, rose from 85 percent in 1945, peaked at 98 percent in 1950, had fallen to 72 percent by 1970 and increased marginally over the 1970s, reaching 77 percent in

1980 (SECAR 1945, 1950, 1970, 1980). While this seems a very comfortable margin of capacity, it is important to note that in the next year, in May and June 1981, for a total of six days the Commission imposed restrictions on the use of electricity because of a combination of high demand due to cold weather, the loss of use of some generating plant, reduced availability of hydro generation and delays and changes to its power station construction program (SECAR 1981, 27).

On this point of delays in power station construction, the SECV advised that similar to the previous year's strike action, industrial action through work bans and demarcation disputes, together with low productivity, 'severely retarded the rate of construction of the Yallourn W Stage 2 and Loy Yang projects which are now some two years and one year behind schedule respectively' (SECAR 1981, 34). The SECV went on to report in relation to Yallourn W: 'as with the Loy Yang project progress on the construction of this station has been delayed by industrial disputation and, in addition, has been subject to low productivity on site over an extended period' (SECAR 1981, 34-36).

While the need for restrictions did not recur, the political and community concern which followed the 1981 restrictions would have done little to discourage SECV management from planning for generous future reserve generating capacity and for long lead times in such an industrial climate. Further, commenting on rationing and excess capacity, Trethowan (1991, 45) was unequivocal that managerially it was a 'bigger sin' to be short of capacity than to have too much. Trethowan described the inability to supply day-to-day needs as 'a nightmare'; he also proffered 'excess capacity is not a political sin, whereas restrictions are a political sin' (1991, 45). Swan (1989, 58), when commenting on capacity, supports Trethowan's view saying 'there is nothing more calculated to place a government in jeopardy than to have peak demands placed on a system which the system is unable to deliver'.

Trethowan (1991, 46-47) identified the important management challenges up to the 1980s as organisational growth, industrial relations, rationing, capacity of the

generating system and capital financing and the relationship with the Victorian Government. He considered significant new management issues which emerged in the 1970s to be public relations and changing community expectations of public utilities. Trethowan nominated industrial relations as the biggest issue of his senior career. He attributed this partly to Latrobe Valley dominance of the SECV but principally to the vulnerability of management and government to power disruptions because of industrial action. Trethowan considered that 'militant unions' consistently exploited this 'soft underbelly of the Victorian Government' (1991, 47). Commenting on a 1977 power strike Trethowan said 'the havoc caused... 450,000 people out of work, \$500 million lost in production and wages... the community has every right to fear... shortages (1978, n).

On the issue of community expectations and influence, Trethowan considered that up to the 1970s the SECV was largely free of direct community influence. He felt this changed in the 1970s, and became significant by the 1980s, with the outcome of this involvement often being a compromise which did not suit either party (1991, 47). This general increase in public scrutiny of statutory authorities and increase in public input to decision making was acknowledged in the SECV 1981 and 1982 Annual Reports where, under the heading 'community', the organisational 'objective' was to:

Identify the needs and wishes of the community and take these into account in decision-making. Keep the community informed of objectives, plans, activities and problems to be overcome (SECAR 1982, 6).

The SECV also stated that Government referrals of certain of its activities to the Parliamentary Public Works Committee provided the community with an 'opportunity to contribute to the decision making process'. It then added 'such inquiries, of course, impose heavy workloads on the Commission's employees and add substantially to the lead time of such projects' (SECAR 1981, 14). This was a comment from an organisation that did not welcome such 'intrusion'.

A Prospective Labor Government

In addition to the issues identified by Trethowan as confronting management in the early 1980s, there was also a further issue for Victorian public utilities at that time. This was the prospect of a Labor Government in Victoria for the first time in 27 years. As part of its platform, Labor promised more responsive bureaucracies. In addition Labor had particular plans for the SECV. Those 'plans' and a range of other influences would challenge the SECV's long established approach to management and organisational design.

By the late 1970s it was apparent that the Labor Opposition had a vision for the future of the SECV that was based on changing the SECV management approach and culture. The Australia Labor Party (ALP) campaign for the 1979 Victorian election (which it lost) included proposals that Victoria should have a State Energy Authority to coordinate energy planning and policy implementation and that the SECV should not be permitted to promote the use of electricity above more efficient energy sources (Evans 1992, 186). The Opposition was quite clear in 1979 on two important policy directions; it would reduce SECV autonomy and it would foster energy conservation.

Prior to the 1982 State election the ALP reinforced this policy intention when it issued its Minerals and Energy policy (ALPME 1982). The policy proposed tighter ministerial control over the SECV and an emphasis on conservation of energy which was considered to be contrary to SECV practice. The document also referred to a proposal by the Commission to construct an additional 21 power stations in the Latrobe Valley by 2030 as an example of inadequate consultation and the SECV's preference 'to operate by secrecy and coercion' (ALPME 1982, 27; Evans 1992, 187). While it is expected that such documents would be critical of the Government and the performance of its key agencies, the extent of the criticism left little doubt that a Labor Government would have major consequences for the SECV.

Andrew Herington, an advisor to David White on his appointment as Minister for Minerals and Energy in 1982, and a Labor Party policy analyst (*inter alia*) prior to that, commented that, in the years prior to the election of the Cain Government, he considered the SECV to be 'very insular, very unaccountable' (Herington 1993, 13). This was a view shared by a number of leading Labor Parliamentarians at the time.

In 1981 the then Leader of the Opposition, Frank Wilkes, warned the Minister for Minerals and Energy, 'not to accept the official State Electricity Commission line on finance, energy and industrial relations'. Wilkes went on to claim that an industrial dispute associated with the SECV's 2000MW Loy Yang A project was 'jointly engineered' by the SECV and contractors, who wished respectively to 'tame the Builders Labourers Federation' and avoid 'a liquidity crisis' (1981, 7165). Further, Wilkes attributed the prospect of possible future base load capacity shortages to poor long-term planning and design changes subsequent to project approval.

In October 1981, David White the Opposition Shadow Minister for Minerals and Energy, moved a motion in the Legislative Council that the SECV be reviewed by the Public Bodies Review Committee (PBRC). The PBRC was an influential public policy committee of Parliament that had been established in 1980 by the Liberal Government to examine the efficiency of Victoria's 9000 public bodies. White's reasons for this motion hinged on the claim that the State Government had 'failed to ensure effective, financial and project management of the commission', and it had also 'failed to keep tariff increases under control and it has failed to prevent major power shortages' (1981, 970).

White described the SECV as in a 'state of financial crisis' and a 'secret society'. He claimed that recent annual reports had concealed the true financial position of the SECV. Further, he was highly critical of the role of SECV management in impending power cuts and repeated his assertion that in this field it also had acted in secrecy. He also suggested that, because of poor power station planning, if stages 3 and 4 of

the major Alcoa aluminium smelter project at Portland went ahead, this would mean power shortages in the winters of 1985 and 1986 (1981, 972).

So far as industrial relations was concerned, the Labor Opposition consistently supported Latrobe Valley unions over the SECV in the early 1980s. Wilkes, in May 1981, issued a media release claiming 'industrial disputes have been caused by ham-fisted Government and SEC industrial relations policies' (1981a,nn). Later that year Wilkes issued a media release in which he claimed 'threats of power blackouts can be avoided by the SEC employing more maintenance workers in the Latrobe Valley' (1981b,nn). He suggested that 100 more workers were required and he also implied that they should attract an increase in pay to retain their services, claiming that maintenance workers could earn an extra \$100 per week working with contractors (Wilkes 1981b,nn).

In December 1981, John Cain, the son of Labor's last Victorian Premier, and Wilkes' replacement as Opposition Leader, issued a press release prompted by union reaction to proposed Government legislation to address a long standing Loy Yang site agreement dispute. He called on unions not to over-react to the 'Government's latest anti-union legislation' and offered to work with unions to negotiate a resolution (Cain 1981a,nn). In March 1982 Cain stated 'harmonious industrial relations in the centre of the State's power generation industry will be vital to an incoming State Labor Government' (Cain 1982a,nn). The comments by Wilkes and Cain strongly suggest that Labor, if elected, would deal directly with power unions.

In a clear guide that the SECV could expect a period of close control under Labor, Wilkes and then Cain set out their vision for the future. In May 1981 Wilkes said that a Labor Government would :

Scrap the SEC's current misleading corporate advertising campaign and replace it with an energy conservation campaign. Appoint project managers to SEC construction projects to improve management efficiency and remove existing cost over-runs due to design changes. Restructure SEC tariffs.

Overhaul SEC financial arrangements. Ensure much greater SEC accountability to the Minister, Parliament and the public. End the secrecy surrounding the SEC's activities. Broaden the SEC board to include consumers and trade unionists (Wilkes 1981c,nn).

In response to an SECV advertising campaign that Victorians had 'a friend at the SEC', Cain commented in September 1981, 'we don't have a friend at the SEC. We have a sick relation' (1981b,nn). Commenting on a Government inquiry into SECV forecasting and tariff structure (Zeidler Inquiry), Cain in December 1981 said that the inquiry was 'further proof that the Victorian Government has lost control of its bureaucracy' and 'a Labor Government will demand that the SEC introduces an efficient pricing structure based on sound business principles' (1981c,nn). Cain in January 1982 described the SECV as 'in a shambles' (1982b,nn).

In essence, the Labor Opposition wanted an emphasis on energy conservation and increased Ministerial control over SECV management practices. Further, it wanted to treat the SECV as part of the energy industry and consequently subject to broad planning policies. Finally, the Opposition wanted to increase public participation in energy policy and planning on specific projects.

The Public Bodies Review Committee (PBRC)

As well as calling for increased SECV accountability and improved performance in Parliament and in the media, Labor also agitated for general public sector reform through the PBRC. Labor was strongly represented on the PBRC which was a Joint Committee of the Legislative Council and Legislative Assembly. Comprised of eight members and chaired by Liberal MLC Dr Kevin Foley, Labor members included Rob Jolly who became Treasurer, Steve Crabb, Minister for Transport, and David White, Minister for Minerals and Energy in the first Cain Government. The PBRC Director of Research was Dr Bill Russell who became Secretary for the Department of Minerals and Energy in March 1983. A consultant to the PBRC was Dr Peter Sheehan of the Institute of Applied Economic and Social Research (IAESR) of

Melbourne University, who became head of the Department of Management and Budget under Jolly in 1982.

Whately (1992, 43-44) argues that the experience of membership for the three Labor members was 'influential in shaping their views' and further to this, that 'White, Jolly and Russell particularly were able to use much of it as a basis for extensive restructuring of the machinery of government at a later date'. One such influence was a study undertaken for the PBRC by the IAESR (1981) to determine the economic and social impact on Victoria of its 9000 public bodies. The study was led by Sheehan under the management of Foley, Jolly and Russell. In a separate study the audit and reporting requirements of public bodies was investigated under the Chairmanship of David White and a committee of three which included Russell; Touche Ross (a consulting firm) assisted with this study (Whately 1992, 46).

Touche Ross found that existing legislation and associated regulations with regard to audit and reporting responsibilities did not require adequate disclosure, policies were inconsistent and the audit role needed clarification. Included in recommendations was the proposed requirement for objectives to be set for each public body and an annual report on their achievement in an endeavour to increase accountability (Whately 1992, 47). The IAESR (1981) report was couched in a similar manner to the Touche Ross report and was equally critical of the public sector. Again it was quite prescriptive of the types of controls and disciplines required. These included the recommendation that government should set guidelines for performance in areas such as pricing and financial management (IAESR 1981, 3). A further recommendation, that in many ways, was to sum up Labor in office in the 1980s, was that increased public sector debt should be employed to fund capital works and lift a 'subdued' economy (IAESR 1981, 11).

A push for public bodies to set objectives, report on their achievement, increase accountability and to meet externally set performance guidelines was in both the Touche Ross and IAESR reports. This strongly managerialist flavour was influenced

by and was influential on White, Jolly, Russell and Sheehan, all of whom were to greatly influence the direction and performance of the SECV.

Impending Managerialism

In addition to the specific Labor Opposition criticism of SECV management, and the managerialist thrust of the PBRC, the 1980 ALP State Conference established a Working Party into Government Administration. The Working Party Steering Committee included Cain, Wilkes, White and Robert Fordham, who was to become Deputy Premier under Cain; it reported its findings to the 1981 ALP State Conference. Those findings also pointed to the likelihood of a managerialist and directive Labor Government. Observations included concern about the inconsistency of programs pursued by the bureaucracy and the need to exert Ministerial control over policy matters. It was proposed that each statutory authority be provided with a statement of objectives in line with government policy and report annually on their achievement (Whately 1992, 52-55).

Further, the Develop Victoria Committee (DVC), a Parliamentary Labor Party group formed in 1979 comprised of Jolly, Crabb, White and Bill Landeryou, who was to become Minister for Industry, Commerce and Technology under Cain, was also concerned with such matters, and in 1981 produced 'Preparing for Government: State Financial Management and Economic Strategy' (Whately 1992, 56). While this was a wide ranging document, of particular relevance for GBEs was the strong managerialist pressure for program budgeting and a top down policy statement development hierarchy proposed for the public sector. In the case of the energy utilities, a position that did not eventuate, but was strongly indicative of Labor's attitude, was the intention to reduce the SECV and the Gas and Fuel Corporation to operating authorities after transferring their policy and planning functions to the Department of Minerals and Energy (Whately 1992, 57).

Whately concludes that, 'the general thrust of these documents was an endorsement of the Westminster principles of government and a resolve to strengthen accountability in policy-making and administration' (1992, 57). A further conclusion, not drawn by Whately, is that these documents and the general thrust of Labor rhetoric and documents, such as its 1979 proposal for a State Energy Authority and its 1982 Minerals and Energy policy (ALPME 1982), meant that the SECV could have expected a period of close control and extensive use of managerialist techniques if a Labor Government was elected.

Unprepared for Change

Significantly, SECV management seemed quite unprepared for the transition to a new government. Strategies, policies or programs to ameliorate the organisational impact of a new Labor Government were not in place and there did not seem to be a preparedness to accommodate a different operating environment. This is not to suggest that the SECV could have been expected to overtly embrace Labor policies. However, in the circumstances, fostering an objective working relationship with key Labor figures, through for example, submissions to the PBRC, would have been prudent. As White (1996, 2) noted, there was no attempt by SECV management to contact him as Opposition 'Shadow Minister' prior to the 1982 election to discuss the directions of an incoming Labor Government. In White's view the 1982 SECV was 'engineering oriented', 'inward looking' and 'functioned as if it were not accountable' (1996, 1).

Further, it is not as though the SECV was unaware of criticism of its performance and methods of management at the time. As R G Chapman, Assistant General Manager (Supply), remarked in February 1982, when commencing in his capacity as head of the SECV task force to prepare and present information to the Zeidler Inquiry into the SECV:

The SEC has been concerned that sustained public criticism over a period of more than twelve months has eroded people's confidence in the

organisation... I expect the inquiry to expose some of the problems which are making our job increasingly difficult, such as financial constraints, pressure from environmentalists and construction delays (SECN 1982, 3).

The SECV was a large engineering oriented bureaucratic organisation which had managed many decades of growth in demand but was confronted with flat demand and excess capacity by the late 1970s. Among the key issues in 1982 for a management which seemed unprepared, was an uncertain operating environment with new and potentially 'inhibiting' community relationships and a Labor Government concerned not only with SECV management practices but also with the organisation's prevailing culture. Bureaucratic theory suggests that highly bureaucratic organisations are not suited to such conditions. But how bureaucratic was the SECV?

The Bureaucratic SECV

As proposed in Chapter 2, the characteristics of bureaucratic/mechanistic organisations can be grouped under three headings to simplify analysis. Those headings are, Employment is a Career (includes the basis of recruitment, promotion and salary setting); Structure and Division of Labour (includes hierarchical arrangements and the extent of functional and specialist organisation); and Rules, Regulations and Decision Making (includes the extent of central control, internal and external impartiality and extent of mechanistic management methods). Analysis of the SECV under each heading follows.

Employment is a Career

Everyone in the SECV worked for a fixed salary. Parliament set the precise remuneration of the Chairman and General Manager, other SECV employees were parties to various industrial awards with fixed salary levels and conditions or their salary was determined by the SECV Board. This should not be interpreted in isolation as a preference of the SECV. Fixed salary levels, with remuneration not

linked to performance, were part of the working conditions and culture of the Australian public sector up to the 1980s and the SECV was no different in this.

Mechanisms designed to ensure equitable decision making in employee selection and promotion included an Appeals Committee to which employees, aggrieved by an interview panel decision, could appeal. The Committee was comprised of three persons, two appointed by the Commission and one elected by 'staff' employees. Its membership and decision making methodology was prescribed in 'Staff and Wages Employees Regulations and Information' (SECRI) or other similar documents issued periodically up to 1982 (Evans 1992, 202). Similarly, the SECV's 'appointments and promotions system' was claimed to ensure 'a fair go for everyone' (SECN235 1979, 2).

The SECV's policies for recruitment and promotion were equity and merit based and disseminated in formal manuals which prescribed all aspects of recruitment and promotion, including control mechanisms, all of which were designed to achieve objectivity in decision making. This focus on impersonal selection criteria was further reinforced by the Municipal Officers' Association (SECV) Award 1975 and presented in the SECV 'Personnel Manual' (SECPM) under 'Appointments and Promotions' (Evans 1992, 204). Award conditions required the employer, when appointing applicants to positions, to take account of qualification, ability, experience and seniority (SECPM 1984, A11.3).

The inclusion of 'seniority' and 'experience' provided an obvious advantage to SECV employees over external applicants. This advantage, when combined with 'qualifications', represented an objective means to select the most appropriate internal applicant and reinforced the notion of the SECV as offering a merit based lifetime career (Evans 1992, 204). Further, officers could receive 'salary accelerations' for 'passing prescribed studies or on obtaining an approved qualification' (SECRI 1982, 32). Reward for qualifications is an objective means of

recognising skills acquisition and is fundamental to a bureaucratic meritocracy (Weber 1964; Gerth and Mills 1946; Blau and Meyer 1971).

Another mechanism to remove bias from the process of advancement in the organisation was a Classifications Committee comprised of three Commission appointees and two staff appointees to consider claims by 'staff' employees for reclassifications. This committee was an appeals body and dealt with reclassifications claims that were unsuccessful through departmental channels (SECRI 1982; Evans 1992, 205).

The SECV closely approximated Weber's 'pure' bureaucracy (overly, and formally, at least) so far as selection, promotion and salary levels were concerned. Formal qualifications and experience were key selection criteria for positions with fixed salary levels.

Structure and Division of Labour

The traditional SECV approach to structure and division of labour was evident in a 1947 reorganisation when management advised staff that the formation of the Design and Construction and Planning and Research Departments was 'founded on the principle that the functions of production and operation are to be separated from design and construction' (SECM Vol 11, 1947, 4). A functional approach to organisation was unequivocally presented as the logical methodology to manage discrete tasks (Evans 1992, 210). This rationale was also employed in 1966 when the SECV announced to staff in an internal publication, the SEC News (SECN), the creation of four new engineering departments to ensure that responsibility for particular activities related to a single department, thus ensuring that two or more departments were not involved in the same activities (Evans 1992, 211).

In 1968 the SECV formed an Electricity Market Development Department and a Sales Department to cope with the emerging phenomenon of excess capacity

(SECAR 1968, 32). This was another key example of functional design and division of labour through the creation of separate departments. However, this was of particular significance as the management reaction to a new stimulus was to create a specialist group to deal with it.

During the 1969/70 financial year, a Computer Services Department was established to undertake electronic data processing services through the Commission (SECAR 1970, 37). Previously this service had been provided in the Finance and Planning & Investigations Departments. This structural change was a further instance of a management preference for centralised specialist units in a functional structure (Evans 1992, 213).

The SECV practice of functional organisation and fostering individual specialisation was further reinforced in 1974 with the announcement of an increase in Assistant General Managers, from four to five, in order to 'help clarify the responsibility, authority and accountability of the Assistant General Managers'. The claimed benefit was that the increase would 'reduce the call on them to keep as fully informed on developments outside their own areas of line responsibility and will allow them to concentrate on their assigned departments' (SECN 1974, 7; Evans 1992, 211).

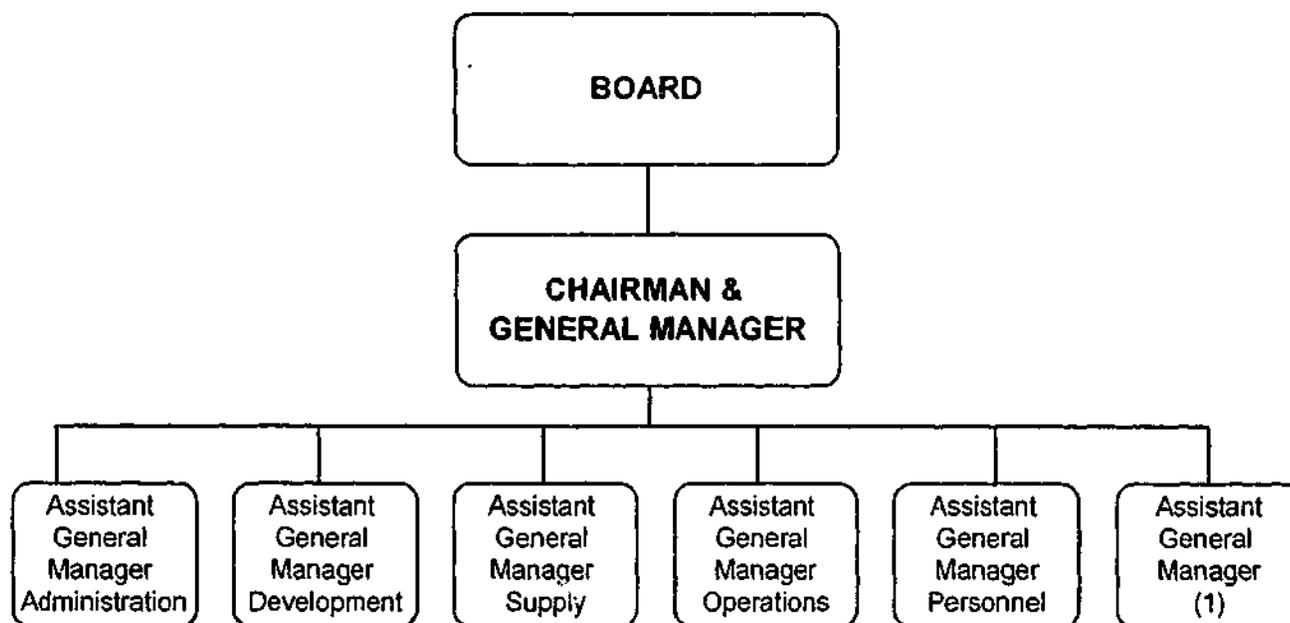
Another example of increasing specialisation and functional design occurred in 1975 (SECAR 1975, 21) when external consultants, Cresap, McCormack and Paget Inc, reported that 'more attention should be given to the increasing complexities of personnel development and industrial relationships'. The SECV response was to form two new specialist groups within the Personnel Department. They were Industrial Relations, 'responsible for promoting effective industrial relations with employees and employee organisations', and Personnel Development and Services, 'responsible for the development of the Commission's human resources involving manpower planning, recruitment training, accident prevention, medical amenities and welfare' (SECAR 1975, 21; Evans 1992).

In 1979 the Training and Development division was re-organised into four functional sections with separate responsibility for technical trainees, commercial cadets and trainees, the delivery of training programs and administration 'which makes sure the other sections are free to function by providing them with the services they need' (SECN235 1979, 13).

The emphasis on functional design with high specialisation is evident in Figure 1 which sets out the top levels of the SECV organisational structure at 30 June 1981, the year immediately prior to the election of the Labor Government.

Figure 1

SECV ORGANISATION CHART 1981



- (1) A specialist Assistant General Manager's position held by J Johnson with responsibility for leading the SECV's evidence to a public inquiry into the proposed Driffield brown coal project.

Source: SECV Annual Report, 1981

This design is in line with previous years and is the type of structure expected of a highly bureaucratic and mechanistic organisation. A consistent management strategy

was to use structural modification and bureaucratic division of labour to cope with organisational growth, changes in complexity of task and to accommodate new responsibilities. This usually meant further specialisation and grouping like activities into functional units. The SECV design, structure and division of labour in the early 1980s was highly bureaucratic and mechanistic and where there was a demonstrated reaction to the environment this had resulted in greater not lesser bureaucratisation.

Rules, Regulations and Decision Making

There are two elements to this grouping of characteristics, internal and external and they are considered separately. Internally the extent of central control, rules and regulations and impartial decision making focuses on organisational processes and decision making procedures. External aspects are concerned with the rationale for decisions which had an impact on SECV stakeholders.

Internal Control, Impartiality and Decision Making

The SECV's approach to formal organisational processes up to the early 1980s was in line with its approach to structure, division of labour and employment as a career. It was bureaucratic and mechanistic and aimed to ensure impartial decision making aided in large part by an extensive use of centrally developed rules and regulations in many cases found in manuals.

The Personnel Manual specified that line departments could, and should, play an important part in staff selections. However the final responsibility for promotion and recruitment rested with a centrally located element of a functional Directorate. Procedures were established for all the steps in the selection process, from advertising the position to filling it. This included general policy, authorisation to make appointments, selection panel composition, advertising and how to establish selection criteria. Rules regarding recruitment exist in most large organisations. A critical issue relates to the extent of prescriptiveness of those rules and of individual managers' autonomy. The SECV was 'more bureaucratic' on this criteria: rules were

highly prescriptive and individual managers had little real autonomy (Evans 1992, 223).

Access to training was also highly prescriptive. The policy on external training specified nomination procedures and selection criteria for participants. Significantly, management development courses were paid for by the central Personnel Development and Services Department. Departmental budgets did not provide for such training and while Departments did meet conference and seminar costs it was clear that this was not an entirely autonomous role as Personnel handled all registration arrangements and specified via the centralist instruction: 'in order that Management can maintain an overall view of the expenditure the Activity code number to be used by departments/regions is 423251' (SECPM 1979, E5.1; Evans 1992, 224).

An example of the organisational preference for rules and formal process is found in the 'streamlined' approach initiated to improve the SECV suggestions scheme. The new approach required persons wishing to make suggestions to lodge them on forms that had to be collected from their 'supervisors or departmental administrative officers', then submitted to the Suggestions Board (SECN225 1978, 15). At a more basic level, within the centrally established Supplies and General Services Department, was the Stores Division with 'direct control of central stores and functional control throughout the rest of the State' of its network of stores (SECN236 1979, 12).

A further example of the highly prescriptive nature of organisational processes and of a zeal to ensure impartiality was the method of dealing with the relatively trivial matter of testimonials of service. A 1976 regulation stipulated that Department or Regional heads were the only people authorised to provide testimonials for 'staff' described as 'leaving the service' (SECPM 1976, T4.1). Personal testimonials were prohibited for 'wages' employees (Evans 1992, 225). So far as 'dishonesty' or 'serious misconduct' was concerned, such matters were to be reported to the

Personnel Department as the offence required 'uniform treatment throughout the service' (SECPM 1978, A 7.3; Evans 1992, 225).

Other rules and procedures dealt with Latecomers, Leave due to Motor Accident, Accidental Death, Shoe Allowance for Meter Readers and Mixed Functions (Evans 1992, 225). The SECV in 1982 employed a centralised approach with formal rules to cover almost all conceivable organisational contingencies while maintaining a strong emphasis on impartiality.

External Impartiality

This is the most difficult characteristic of Weber's bureaucracy to identify. As has been shown, there were many critics of the SECV and the Liberal Governments leading up to the 1982 election, who claimed that the Commission's actions were not in the best interests of all Victorians. Allegations of political bias and misleading Parliament were, along with a range of other claimed shortcomings, outlined earlier in this chapter. What does 'impartiality' mean in such a charged environment?

A workable perspective is that impartiality is manifest in organisational actions and directions that are motivated to benefit recipients of the bureaucracy's services rather than the bureaucrat, when outcomes are not mutually beneficial. The crucial aspect of this perspective is what the bureaucrat believes, not what others might construe as motivation for an outcome, even if this can be described as paternalistic, narrow or ill conceived.

As Herington commented (1993), when asked about Assistant General Manager Jack Johnson, the driver of SECV growth in the 1970s:

He represented everything that was bad about the authoritarian SEC, it's doing what's good for you 'you people just don't understand'. There's no doubting that generation of engineer- their commitment to public values...they think that everything they do is for the public good, regardless of whether the public wants it or not (1993, 12).

Dreyfus (1998, 144) argues that there were examples of SECV bureaucrats serving their own interests, but 'in the case of the decision making power wielded by the technical experts...there appeared to be a far more altruistic motive. Many of the engineers truly felt they were serving the public'.

While Weber expected impartial decisions to be superior because of their basis *inter alia* in precedence and process, it seems unreasonable to so constrain findings on SECV management's impartiality by reference to the quality of decisions. A much more reasonable test of impartiality is to inquire into the intentions of management and look for selflessness and actions in line with organisational objectives. It is therefore considered reasonable to propose that, in the absence of any real evidence of self interest by SECV management, impartiality was brought to external decision making. Whether this held for the Labor years is an important aspect of later chapters.

How Bureaucratic was the SECV in 1982?

Based on the analysis of characteristics of the SECV, the following description of the formal conformation of the SECV in 1982 has been developed. The SECV was highly bureaucratic and mechanistic. Its processes of rules, regulations and impartial decision-making, combined with extensive division of labour were closely aligned with the characteristics of Weber's ideal type bureaucracy. These processes were supplemented by a mechanistic organisation structure founded on a functional design with quite detailed levels of specialisation and centralised control. The SECV closely approximated Mintzberg's (1979) machine bureaucracy.

SECV Culture

Having established a formal description of the SECV as a highly bureaucratic and mechanistic 'machine' bureaucracy in 1982, it is important to supplement that description with knowledge of the informal elements of organisation, SECV culture.

While the theoretical cycle of 'beliefs – values – norms – beliefs' employed to describe the development of organisation culture can be considered simplistic, it does serve to demonstrate the importance of organisational values and beliefs built up over time. The SECV fostered its belief system through a policy of promotion from within and promotion of those who conformed to its beliefs, values and norms and through the commitment of organisational 'elders' to preserve the historical place of the organisation in Victorian society.

It is also important to appreciate that, while the SECV in 1982 was highly bureaucratic and mechanistic, that a history of this approach had become embedded as part of the organisational psyche or culture. The orderliness and stability that this approach fostered, and which in turn fostered it, was the setting into which new recruits were immersed and which in many ways set the parameters for the rest of their working lives. While comprehensive rules and regulations were in place to achieve objectivity in base grade selection and internal promotion, there is little evidence of external recruitment at other than relatively junior levels. The extent of internal promotion is not necessarily a defining aspect of organisations. However, in the case of senior positions the practices surrounding appointments to such positions help to develop an understanding of SECV management culture.

An examination of SECV annual reports from 1945 reveals that senior positions were rarely filled externally over the decades up to the 1980s. In the 1981 Annual Report, a list of retiring 'senior officers' showed that of the five people so defined the minimum length of service with the Commission was 35 years (SECAR 1981). In the following year, a further five senior officers retired and apart from one person who had been with the Commission for only six years, the other four had from 32 years of service to 41 years (SECAR 1982). Promotion from within SECV ranks was the principal method of recruitment to senior positions. Of 19 senior appointments announced in 1981 following a reorganisation, all were SECV employees (SECAR 1981). Kingsley Culley, Director of Corporate Planning in the mid 1980s, commented that he tried to promote outside appointments to senior positions but the

SECV preferred to 'grow its own people' through recruitment at junior levels and 'instil the old culture' into those new recruits (Culley 1991, 207). As Trethowan said when recalling the careers of two senior SECV officers who had both commenced employment as teenagers 'the "office boy to general-manager" story should be inspiration enough' (SECN225 1978, 2).

While it is unreasonable to conclude that an organisation has a narrow outlook or is 'engineering oriented' based simply on the number of engineers in senior positions, it is noteworthy that, of the nineteen SECV officers appointed to senior positions in 1980/81, fifteen had engineering qualifications and of the remainder one had scientific qualifications and was a Member of the Australian Institute of Engineers (SECAR 1981). At the senior level in 1981 and for the previous decades, the overwhelming majority of SECV senior managers had been promoted from within and held engineering qualifications; all were male.

A further dimension to an appreciation of culture emerges through an understanding of senior management's perception of its employees and the relationship between the two groups. For the SECV for the period from 1945 to 1980 the senior management philosophy regarding human resource management was largely a narrow interpretation of humanistic approaches that was manifest in paternalism.

Paternalism implies some fundamental assumptions by top management about what motivates employees to perform. Vroom and Deci (1985, 11) argue that paternalistic management looks to a perceived link between motivation and performance, namely that as workers needs are satisfied their productivity increases. They consider management practices which are 'instruments of the paternalistic approach' (1985, 11) to include education and recreation programs, an emphasis on physical working conditions and job security, predictable promotion policies and with managers focusing on arranging 'conditions of work so that people would feel comfortable, happy and secure' (Vroom & Deci 1985, 12). The expected outcome of the

paternalistic approach was gratitude, loyalty and enthusiasm leading to improved performance.

Unlike its commitment to the scientific and bureaucratic approaches, where there were clear instances of the application by SECV management of certain 'humanistic' techniques, this was of a largely superficial nature and was reflective more of paternalism than of management and employees collaborating to solve mutual problems. An example of the SECV attitude is found in the 1947 Christmas edition of the 'in house' SEC Magazine (SECM) which described the recreational facilities for Yallourn employees as indicative of 'the beneficent hand of the Commission' (SECM 1947, 24; Evans 1992, 67). Annual reports and SECMs for the 1940s and 1950s emphasised the efforts of the SECV to improve the amenities of workers both at work and at play (Evans 1992, 67).

This application of predominantly paternalistic techniques occurred while the underlying scientific/bureaucratic approach was followed by management. An example of how the SECV saw its employees is found in the 1936 foreword to the first edition of the SECM where the Chairman, FW Clements, after stressing that the journal was to be representative of recreational, social and non-official activities of SECV employees, went on to describe those employees in a paternalistic manner as 'the human element represented by the 5,600 "featherless bipeds" or "souls" on the Commission's register'. Clements then continued, in a 'scientific/bureaucratic' manner, to describe those bipeds as 'human material...segregated into departments and teams carrying out various technical processes' (SECM 1936,1; Evans 1992, 63).

This paternalistic, superficial application of humanistic techniques continued through to the 1970s and early 1980s, with Annual Reports and the monthly in-house magazine, the SEC News (SECN, the successor to the SECM) regularly presenting articles of working conditions and 'happy worker', 'long serving employee' stories. Culley confirmed that 'doing the right thing' and being rewarded for it was a consistent theme in the SECV. He cited his own experience of SECV scholarships,

paid time off for full time study, working diligently, conforming and consequently being promoted (Culley 1991, 231). Another most important thrust of this paternalism was that it extended to SECV dealings with its external environment. This external paternalism was manifest in the belief that the SECV knew what was best for Victoria even if Victorians couldn't see it. This attitude is well summed up by Jack Johnson (1993, 22), former SECV Assistant General Manager, Development, who claimed that the SECV acted in the 'long term interests' of Victoria and that those who criticise the SECV for 'over capitalisation' and 'too large a structure' 'don't really understand the amount of work that has to be done in developing the resources of the state over a period of about 30 years'.

Further, while SECV history has prominent examples of it being criticised for electricity rationing, excess capacity, empire building and so on, it also had a history of pushing on in the face of such criticism. Its record of achievement was based on building big power plants and a strong preference for capacity over the risk of rationing. SECV decision-making was steeped in an engineering logico-deductive methodology which dispensed rational, if not optimal, outcomes in the big decision areas of power plant planning and construction. Its Taylorist deterministic approach to forecasting combined with paternalism was a considerable force that, up to the 1980s, was able to persuade Governments to the SECV view of the future, partly because of a shared fear of rationing.

Kellow (1996) suggests that excess capacity was a function of a 'maximising' bias based on a culture of growth which was exacerbated by a deterministic approach to the demand/supply equation. He contends that this 'bias' was fostered by engineering dominated organisations such as the SECV (Kellow 1996, 2-4). This proposition will be explored in some detail in later chapters, where deterministic forecasting will be contrasted with a probabilistic approach, and where the importance of Government influence on forecasts and on power plant decision making will be highlighted.

In summary, the SECV culture which developed within a bureaucratic mechanistic framework was one of a patriarchal, engineering oriented, male dominated organisation that promoted from within and was proud of its achievements and its autonomous nature. Its history was also steeped in the deterministic rationality of economies of scale with big plants and excess capacity being preferable to the risk of rationing.

The Industrial Relations and Work Practice Culture

Industrial relations was one dimension of culture that was quite different and clearly out of alignment with the orderliness and control that is part of the previously developed description of SECV management approach and culture. An important clue to SECV industrial relations culture was the organisational distinction of 'employees' and 'wages'. The SECV used this distinction to separate 'employees' engaged in staff functions from those designated 'wages' who were engaged in line functions. Mintzberg (1979) considered that one of the defining features of a highly formalised 'machine bureaucracy' was a clear distinction between 'staff' and 'line' functions. On face value this distinction is a strong indication of an internal 'them and us' culture. In industrial relations and, in particular, Latrobe Valley industrial relations, there was manifest organisational conflict and win/lose confrontation in the 1970s and early 1980s.

Not that such conflict was peculiar to the SECV. Alford (1992, 149) describes industrial relations in the years prior to Labor's 1982 election as 'chaotic' and 'characterised by turmoil and conflict, manifested by strikes in the power industry, schools, health, transport and welfare'. He also proposed that public sector industrial relations managers were usually quite powerful and subject to little ministerial control, 'in effect the public sector industrial relations agenda was set by the separate efforts of the managers in the bigger agencies such as the State Electricity Commission...which were like independent fiefdoms' (Alford 1992, 144). However, as previously mentioned, Charles Trethowan saw his biggest management issue as

industrial relations because of the political implications of industrial action resulting in power restrictions.

A major issue leading into the 1980s, which reinforces Trethowan's view about the power of Latrobe Valley unions, was a 1977 maintenance workers strike. This strike helped to colour the views of many about the SECV, unions and the Latrobe Valley. The catalyst was a decision by Latrobe Valley unions to negotiate with local SECV officers, rather than the standard approach where claims were handled by the Victorian Trades Hall Council. A log of claims was served on 27 March 1977 and the SECV refused to negotiate on the grounds it was outside usual practices. The unions imposed overtime bans from 15 June 1977. The SECV responded by re-rostering staff to carry out a backlog of repairs due to the overtime bans (Benson and Goff 1979; Evans 1992).

The result was 2,300 maintenance workers on strike from 9 August 1977 until 25 October 1977 causing considerable disruption to Victoria's economy and community. The Conciliation and Arbitration Commission determined on 7 October that there should be an immediate return to work, the maintenance workers voted to stay out. On 18 October the SECV wrote, on the instruction of the Premier, R J Hamer, to each striker's home advising that failure to return to work would be an abandonment of employment (1977, 10386). In a clear and unambiguous alignment with the union, Wilkes, Leader of the Labor Opposition, called for a review of SECV conditions and wages (1977, 10387) while DGI Amos, (Labor Member for Morwell) criticised the Government's role as 'the most deplorable example of Government involvement in an industrial dispute that the State has ever seen' (1977, 10398; Evans 1992, 237).

An insight into the impact of the strike and the SECV management approach was provided some ten years later when Bates commented, just prior to his appointment to the position of Deputy Chief General Manager, 'the thing that stuck in my gut in 1977 was the huge gulf that occurred between management and employees...you could see it widening day after day'. Bates said that 'the events of 1977 changed my

approach to man management... and I have tried to practise the lessons I learned during that exercise ever since' (SECN 331 1987, 7).

While the strike was resolved within one week of the SECV letter being sent to strikers, the dispute reinforces Trethowan's views regarding management's and the Government's vulnerability. This concern was openly shared by the Labor Opposition before the 1982 Victorian election, when the Labour Campaign Committee identified electricity as one of the three potential dangers to the Party 'by reason of their potential for industrial disruption and resultant exploitation by the Liberal Party' (Sonder 1983; Evans 1992, 238).

Further, when bald statistics are considered, the absolute and relative importance of industrial relations as a key management issue and an integral part of SECV culture is indisputable. In the six years leading to June 1980 an average of 335,000 man hours were lost per annum with a peak of 980,000 hours lost in 1977/78 (SECAR 1984). Significantly in 1980/81 only 31,064 man hours were lost due to industrial action compared with 264,964 in the previous year. However in 1980/81 The SECV introduced a 37.5 hour week and provision for a nine day fortnight (SECAR 1981).

SECV Management had to deal with over twenty unions representing the various elements of a disparate workforce. Demarcation disputes were prevalent and the smallest union had the capacity to hold Victoria to ransom. The 1980 Annual Report presented a telling example of this when outlining the impact of a four day strike by around 200 members of the Australian Institute of Marine and Power Engineers, where the impact of industrial action was not so much a function of the size of union membership as of the strategic placement of unions in the electricity supply process (Dreyfus 1998, 72). In this case, 200 workers effectively closed three power stations (Hazelwood, Yallourn and Yallourn W) with significant disruption to the whole State (Dreyfus 1998, 72). When describing the early 1980s, Cain (1995, 48) observed 'the muscle of the power unions, either singly or collectively, when used in the Latrobe Valley, for instance, can be very difficult for Government to manage'. Johnson

(1993, 4), commenting on the construction of Yallourn W power station in the 1970s, observed 'there was industrial anarchy over the whole business. If one of our testers produced a screwdriver to make an adjustment... that was staff using tools and the whole site walked off'.

Union militancy and high levels of hours lost occurred in concert with significant overmanning. The extent of this overmanning was reported to a Department of Management and Budget Committee of Review into Loy Yang Costs and Management (DMB 1982) by Rheinbraun Consulting (1982). Estimates of overmanning presented in that Report included proposed overmanning of 81 employees in the operation of Loy Yang A station estimated to potentially cost \$2 million per year (Rheinbraun Consulting 1982, 35). Rheinbraun Consulting (1982, 38) also observed that the SECV required 130 personnel for the 'management and supervision' of Loy Yang A construction; whereas in Germany 65 people were required for similar work. Cost increases on the Loy Yang project directly and indirectly attributable to industrial disputation were estimated by Professor Ken Wright, another consultant to the DMB Review, in 1982 at \$300 million since the project was approved for construction in 1976 (1982, 1).

Finally the issue of poor work practices represented a major management issue from both the perspective of the impact on efficiency and as a reinforcement of a culture of 'them and us' and of categorisation of workers into 'wages and employees'. A stark example of this was the refusal of construction workers to work when it was raining, even if under cover, or to continue to work if a cat was on site (Dreyfus 1998, 89). The SECV referred to this position in general terms in its 1981 Annual Report when it described delays on Loy Yang and Yallourn W power stations as due inter alia to 'low productivity on site over an extended period' (SECAR 1981, 36).

In industrial relations the culture in the late 1970s and early 1980s was 'win/lose', with high levels of strike action and a poor relationship between management and unions. There were examples of management and unions working together to try

new approaches, including industrial democracy projects where management, unions and employees worked together to solve mutual problems (Evans 1992, 242). These examples are significant as they occurred against a backdrop of confrontation and one where, according to Trethowan and Culley, Latrobe Valley unions had too much power. However, on balance, management did not appear to have a corporate industrial relations strategy other than to pay for poor work practices, support over manning and perpetuate a 'them and us' culture with Latrobe Valley unions.

SECV Management Approach and Culture in 1982

The formal and informal characteristics of the SECV outlined in this chapter leads to the description of SECV organisation and management in 1982 as, on balance, a highly bureaucratic and mechanistic machine bureaucracy, supported by a male dominated, engineering and paternalistic culture. At times management demonstrated less bureaucratic more flexible characteristics, but this was not a consistent theme. Much of the ethos of the 'scientific' management approach was evident in SECV management procedures and practices up to the 1980s. While it can be argued that the paternalistic approach in a de facto sense embraced certain of the fundamentals of the human relations school, this was at a most superficial level.

Bureaucratic theory suggests that organisations with a highly bureaucratic and mechanistic approach would have clearly defined specialised functions, arranged in hierarchies with centralised control and a high concentration of authority at the top. In such organisations advancement based on experience (seniority), technical competence and credentials and governance is based on specific and extensive operating procedures and rules. All of these characteristics were present in the SECV in 1982.

These characteristics are also present in Mintzberg's (1979) 'machine bureaucracy' which he argues more closely approximates the Weberian 'ideal' type of bureaucracy than any other organisational form. This means that on the basis of the Weber's

characteristics the SECV was highly bureaucratic and mechanistic. Consequently the weaknesses that theory suggests are to be found in the bureaucratic form could be expected to be found in the 1982 SECV and how it would cope with a turbulent operating environment

Conclusion

This chapter considered several key organisational variables to assess the extent of SECV bureaucratisation. Those variables were – Employment is a Career; Structure and Division of Labour; and, Rules Regulations and Decision Making. These variables were used to characterise the SECV in the early 1980s and led to the conclusion that the SECV was highly bureaucratic in management approach and employed a mechanistic organisational design. In Mintzberg's (1979) terms, it was a 'machine bureaucracy', characterised by highly specialised and routine tasks, extensive formal operating procedures, a proliferation of rules and regulations and tasks grouped on a functional basis.

These characteristics were reinforced by a culture dominated by male engineers, most of whom the organisation had promoted from within. It was a paternalistic culture based on 'doing the right thing' and being rewarded for it, on building big power plants and being risk averse to the prospect of rationing. It was also a culture which tolerated poor work practices and one in which industrial relations was predominantly adversarial.

Prior to 1982 there were a number of important influences on the SECV. At the political level the Victorian Labor Opposition had mounted a strong attack over several years on the SECV and its management. The Opposition accused the SECV of poor financial management, excess capacity, inadequate forecasting techniques, lack of accountability, misleading Parliament and acting autonomously. Labor proposed much more stringent Ministerial control, to introduce managerialist techniques, to make the organisation less autonomous and to introduce holistic

energy management as opposed to competition between energy agencies. While not unexpected, such criticisms and proposed solutions were significantly more relevant in the early 1980s because, after 27 years in Opposition, Labor was likely to be successful in the 1982 election.

Further, another major external force came from the broader community. As Trethowan (1991) noted, over the 1970s and early 1980s there was a dramatic increase in community interest and insistence on being heard on a range of operational and strategic issues that previously had been handled internally by the SECV. This led to the concomitant need for the SECV to consult with the community and to consider the outcomes of this consultation in policy development and organisational decision-making.

The traditional SECV management approach was bureaucratic, mechanistic and paternalistic. It was an approach that had been employed since inception in 1918 to the early 1980s. Until the 1960s this approach was applied to an organisation that was experiencing dramatic growth in size and in output. The later period, up to the late 1970s, was a relatively stable time so far as organisational growth was concerned.

The 1980s promised to be quite a different decade for the public sector with pressures for commercialisation, corporatisation and privatisation and, in the case of the SECV, it also marked the arrival of an openly hostile Labor Government with a strong managerialist agenda. The traditional SECV approach was confronted with a threatening and volatile operating environment. This is a situation that bureaucratic theory proposes is not suited to a highly bureaucratic and mechanistic method of organisation and management, which in turn can lead to inappropriate decision making. Predictions from the theory are also that such organisations cope with a turbulent environment by making themselves more bureaucratic. Subsequent chapters will test these theoretical expectations in the case of the SECV. In the first instance

Chapter 4 considers the operational performance of the SECV to provide a context for examining the impact of managerialism, commercialisation and corporatisation.

CHAPTER FOUR

SECV PRODUCTIVE EFFICIENCY AND FINANCIAL PERFORMANCE - 1982 TO 1992

Introduction

The SECV in 1982 was a highly bureaucratic and mechanistic organisation with senior positions dominated by male engineers promoted from within. Its patriarchal culture and reward for conforming had developed over many decades in concert with an ethos of organisational growth based on increasing demand for electricity.

By 1982 growth in demand for electricity had levelled off, and had done so for some time. After 27 years of conservative Government, Labor swept to office with plans to reform the public sector, and with particular plans for the SECV, of which it had been highly critical in opposition. The relatively stable relationship with the Victorian Government that the SECV had enjoyed for many years was about to be disrupted. This pending instability was exacerbated by mounting national and international pressure for fundamental reform of GBEs. The 1980s promised to be a turbulent time for the SECV.

This chapter analyses key SECV data for the period 1982 to 1992 and draws conclusions about performance based on an assessment of its 'bottom line'. The chapter covers production, human resource and financial data, presents a comprehensive statistical picture of the SECV and identifies key issues and outcomes for further consideration and explanation. The value of this longitudinal review is that it presents a reference point to facilitate a focus in later chapters on explanations of performance and decision making, and on themes with a shorter timeframe.

The present chapter focuses principally on hard data. It considers the efficiency and financial performance of the SECV with only limited discussion of the SECV

management approach or the actions of Government. The deliberately restricted scope of this chapter permits concentration on the range of factors that combine to permit conclusions to be drawn about organisational efficiency. The Industries Assistance Commission (IAC) argues:

Efficiency in production requires that electricity be produced at any point in time and over the course of time with that level and composition of resources that minimises total costs. However, there is no single measure which can be used to assess efficiency against this criterion (1989, 7).

Consequently, this chapter presents a wide range of measures of absolute and comparative performance to develop an 'on balance' appraisal of the SECV under Labor. This includes details and analysis of capacity utilisation, labour productivity, sales and tariff policy, financial performance, capital expenditure and debt and relative performance within the Australian electricity industry.

The evidence suggests that, during the Labor decade, performance was steady rather than spectacular, though several measures such as labour productivity and capacity utilisation did show significant improvement. Major causes of this generally slow improvement were a restricted tariff regime, seriously flawed decisions to invest in power plants in the face of considerable excess capacity, and to fund that investment with debt at interest rates which were the highest for the century. The general conclusion is that, the Labor years were unremarkable from a 'bottom line' perspective and the management approaches employed between 1982 and 1992 did not result in apparent improvement in performance, leaving considerable scope for future gains.

Productivity and Efficiency

The two terms that will be used to describe the SECV's performance are efficiency and productivity. But how are these terms to be understood?

In the case of efficiency, the Industry Commission (IC) sees two key dimensions. These are productive and allocative efficiency, which it defines as follows:

Productive efficiency involves producing outputs in a manner which minimises costs both at a point in time (static efficiency) and over the course of time (dynamic efficiency). If costs are not minimised, resources are wasted.

Allocative efficiency essentially relates to whether prices are consistent with the consumption by the community of a mix of goods and services that will maximise economic welfare. This generally requires that prices reflect the cost of efficient supply, including a return on capital (IC 1991b, 18).

The Commonwealth Government sought to achieve allocative efficiency through competition and fundamental structural change at the industry level. Other chapters consider allocative efficiency and the Commonwealth influence. This chapter is concerned with static and dynamic productive efficiency in the Industry Commission sense. It uses common measures of productive efficiency in combination, firstly looking at capital and then labour productivity.

In the case of productivity it is recognised that while emphasis will be on single factor productivity measures, such as GWh per employee, that this can change by substitution. Potential substitutes are labour, capital and materials where, for example, labour productivity can show an improvement simply through capital investment in new plant or through a switch to contract labour. In both cases a measure of labour productivity could increase when there has been no commensurate increase in labour effort.

This problem can be overcome by the use of an index as an overall productivity measure. Total Factor Productivity (TFP) is one such measure which permits an assessment of performance and which uses a range of inputs to the production process. However, it should not be used as a replacement for single or partial factor productivity but as an addition. As the EBRC pointed out, 'the availability of partial productivity indicators should facilitate diagnostic analysis of the specific sources of total factor productivity trends' (EBRC 1990, 131). Both measures are used in this chapter, which also highlights the reasons for partial factor productivity changes that are not due to changed effort, but to substitution.

Productive Efficiency

The elements of productive efficiency that will be considered are capital productivity, the cost of excess capacity, plant availability, labour productivity and total factor productivity. These measures are used in combination to draw general conclusions about SECV productive efficiency.

Capital Productivity

There are two principal areas of capital productivity: capacity utilisation and plant availability. The focus of this study is on capacity utilisation because of the magnitude of the impact on SECV operating performance of capital expenditure on plant under Labor, though it will also be argued that inferior plant availability represented potential for considerable savings.

Capacity Utilisation

A universal measure of electricity industry operating performance is capacity utilisation. For the SECV, installed plant was more highly utilised at the end of the Labor decade than at the start. This permits the cautious conclusion that production was more efficient in 1992 than in 1982. However, as Table 1 shows, installed capacity remained relatively unchanged from 1987, and in that year was 47 percent in excess of maximum coincident demand reducing to 29 percent excess by 1992.

Table 1 - SECV Excess Capacity at a Reserve Plant Margin of 22.5 percent, 1982-1992

Year Ended 30 June	Total Installed Plant Capacity ¹ (MW)	Maximum Co-incident Demand on SECV Interconnected System (MW)	Actual excess capacity %	Capacity needed at 22.5% RPM (MW)	Excess Capacity (MW) at 22.5% RPM	Total Installed Plant Capacity Advanced Three Years
a	b	c	d	e	f	g
1982	6344	4443	43	5443	901	
1983	6344	4497	41	5509	835	
1984	6844	4837	41	5925	919	
1985	6603	4769	38	5842	761	6344
1986	7003	4846	45	5936	1067	6344
1987	7503	5088	47	6232	1271	6844
1988	7503	5233	43	6410	1093	6603
1989	7763	5711	36	6996	767	7003
1990	7763	6212	25	7610	153	7503
1991	7763	5886	32	7210	553	7503
1992	7763	6005	29	7356	407	7763

¹ Total Installed Plant Capacity is the same as the ESAA 'Effective Plant Capacity'; it excludes plant not available as part of the normal generation system.

Source: SECV Annual Reports 1986, 1993

Consequently, while improvement occurred over the period in capacity utilisation, 1987 capacity was well in excess of peak demand which was exacerbated by the 500 MW of additional capacity that came on in that year. Excess capacity is costly on several counts. It increases the unit cost of output, as production costs include a larger than necessary investment, and it causes an increase in maintenance costs even though plant is under utilised. However, in the SECV case, where excess capacity was funded by debt at high interest rates, this presented, in addition, a political as well as a financial burden. On face value the extent of SECV over capacity is difficult to understand.

The Extent of Excess Capacity

What then was the extent of excess capacity and the related issues of excess debt and excess finance charges? The answer to these questions both draws on Dreyfus' (1998) work and departs from it in a number of respects.

Dreyfus (1998, 30) proposed that:

The SECV built its power plants well ahead of when they were needed during the 1980s and this excess generating capacity cost the state of Victoria approximately \$1.7 billion dollars in the fifteen years to 1993. It is also argued that he (sic) Commission also paid too much for the power plants it built during this time and this excess cost the State more than \$2 billion dollars (in 1993 dollars).

The basis of Dreyfus' estimate is twofold. She considers how long in advance of plant being commissioned some of its capacity was required, and how long before all of its capacity was required. This is important because the SECV practice was to bring on stream large power plants, which caused a 'lumpy' supply side while demand had traditionally grown in a relatively steady fashion. Consequently some over capacity, if under capacity was not be a real risk, had to occur simply because of the scale of development.

To assess the extent of over capacity, Dreyfus used a traditional Reserve Plant Margin (RPM) approach based on an Electricity Supply Association of Australia (ESAA) methodology which was the industry standard (Dreyfus 1998, 36). RPM is the extent of generating capacity above peak demand on the system. It is the actual percentage excess capacity, column d, from Table 1. However, it is unreasonable to designate the full extent of over capacity as 'excess'. A certain level of over capacity is needed to cover maintenance requirements and the likely levels of plant unavailability due to a range of factors such as breakdown. A capacity safety margin is needed to insure against both planned and unplanned downtime. The ESAA (n.d., 12) defines RPM as follows:

$$\text{RPM} = \frac{\text{Effective Plant Capacity} - \text{Peak Demand}}{\text{Peak Demand}} \times 100$$

Dreyfus set a target RPM of 25 percent as an appropriate level of over capacity to accommodate planned and unplanned downtime. Dreyfus then compared this with the actual SECV RPM from 1950-1993; she described any capacity above her 25 percent RPM as 'excess' capacity. On this basis Dreyfus found that excess capacity peaked in 1984 when the target 25 percent RPM was exceeded by almost 35 percent (Dreyfus 1998, 38). However, a target RPM of 25 percent is generous when compared with the Australian Bureau of Industry Economics (BIE) (1992, 52) which considers a 20 percent RPM to be optimal for a predominantly stand alone system. The IC (1991b) reported that an RPM of 20 to 25 percent was considered satisfactory internationally (IC 1991b, 21).

This study employs a target RPM of 22.5 percent as a prudent middle ground between these upper and lower levels. Interestingly, the BIE (1992, 52), in a report which compared Australia's electricity industry performance against international performance indicators, presented instances of North American and Canadian industry where, due to the advantage of interconnection, RPMs as low as 12 percent were recorded.

Using an RPM of 22.5 percent, Table 1 compares SECV installed capacity with the capacity needed to meet maximum demand for electricity, plus the RPM, to measure the extent of excess capacity. These results differ slightly from those derived by Dreyfus as they are based on SECV installed capacity. Dreyfus adjusted that capacity upwards to take account of Alcoa at Anglesea (150 MW) and 300 MW of available New South Wales capacity from 1990 to arrive at a 'total system capacity'. On the other hand, the average RPM of 22.5 percent is less than that employed by Dreyfus. The result is that the two measures of excess capacity are not materially different for the first seven years under Labor. In Labor's last three years Dreyfus' upward adjustment for available New South Wales' capacity means she reports an

excess capacity significantly greater than that of Table 1. However, even at the lower capacity levels employed in this study, Table 1 shows over those three years that only 1990 was close to a 22.5 percent RPM; which was an aberrant year seasonally as maximum coincident claimed occurred in summer, whereas in all other years in Table 1 it occurred in winter (SECAR 1993, 131; SECAR 1986, 95).

This thesis does not aim to determine the initial cause of this excess capacity, which pre dated Labor and which writers such as Kellow (1996) and Dreyfus (1998) attribute to over optimistic forecasts, combined with deterministic planning procedures and a ' bigger is better' philosophy, driving power plant construction. Rather it is concerned to establish a broad measure of the extent and cost of excess capacity and to then seek in subsequent chapters to explore if either was able to be mitigated or avoided. As mentioned, the measure of excess capacity developed is conservative so that the size of the issue is not overstated. To estimate when the first call on any new plant was required, the simple technique employed was to conceptually move the installed plant capacity column forward in time until it approximates the 22.5 percent RPM Band; this is represented by column g in Table 1.

The result of the conceptual shift is that, with a preparedness to manage to a 22.5 percent RPM, installed plant capacity can be moved three years forward before it moves slightly under this RPM level; this occurred in 1990. This approach suggests that, for the ten years of Labor, excess generating capacity was available for at least three years before it was needed. Further, this methodology indicates when the first call was made on any new capacity, not when it was all required. It follows that a higher estimate of excess capacity and cost of commissioning could be derived simply by assuming that the SECV could have added capacity in smaller increments.

This finding of the extent of SECV excess capacity is supported by calculations from several other sources which demonstrate that the SECV had, on average over the Labor years, excess capacity equivalent to the generating capability of a large power station. Dreyfus (1998, 61) measured SECV average over capacity for the fifteen

years to 1993, based on a 20 percent RPM, at 1000 MW. The IAC (1989, 10) measured SECV excess capacity for 1988/89 at a 20 percent RPM at 910 MW and the BIE (1992, 65) estimated that, at June 1991, and also at a 20 percent RPM, SECV excess capacity was 700 MW. Calculations from Table 1 show that, the total excess capacity for the eleven years ended 30 June 1992 was 8727 MW, giving an average excess capacity of 793 MW at a 22.5 percent RPM.

For the ten years of Labor, it can be argued from Table 1 that excess capacity was reduced from 901 MW to 407 MW and that was a meritorious achievement, but this was not the case as it ignores the extent of excess capacity in the mid 1980s. The timing of capacity increases in 1986 and 1987 were so far in advance of demand that they are difficult to fathom unless it was financially imprudent to delay commissioning. To have the equivalent of a very large power station, 1000 MW, as excess capacity, largely funded by debt and requiring regular maintenance expense, represented a monumental hurdle for SECV management and an unnecessary capital investment for Victoria. Further, this makes the 1985 Labor Government's decision to proceed on schedule with the 2000 MW Loy Yang B project, forecast at that time to come on stream in 1992, all the more confounding.

The Cost of Excess Capacity

For the SECV the high cost of construction was an additional cost over and above that of commissioned excess capacity. Chapter 3 argued that industrial disputes and prevailing work practices in the Latrobe Valley contributed to significant cost overruns and a blowout in the proposed commissioning date of Loy Yang A. Ironically, it follows that had construction of Loy Yang A proceeded more efficiently, while the capital cost would have been less, installed excess capacity and concomitant maintenance costs would have been even greater than in 1982. Delays in construction added to costs but this was a gross addition as there were other costs that were avoided by the delay. Of far greater importance is that, even though a delay of years occurred on the Loy Yang A project, there were no technical problems associated with this. This permits the argument that SECV management could have

deferred the construction and commissioning of part or all of Loy Yang A for several years and not compromised the integrity of the final product, albeit contractual obligations could have penalised such a position. On face value, the failure to postpone the construction of Loy Yang A, in whole or in part, was potentially costly. But how costly?

The direct cost of excess capacity has two elements: the actual cost of construction of unnecessary capacity, including finance charges, and the associated carrying costs such as maintenance. However, more fundamentally, there is the opportunity lost by the failure to delay construction and therefore free funds for other purposes or to limit debt. Table 2 presents a chronology of generating plant installation between 1980 and 1992. The Table excludes Loy Yang B units 1 and 2, as work commenced on this power station in 1987 but it was not commissioned prior to 1992.

Table 2 – SECV Installation of Generating Plant, 1980-1992

Power Station	Year Installed	Capacity (MW)
Jeeralang (Gas Turbine)	1980	80
Newport D	1980	500
Yallourn 3	1981	375
Yallourn 4	1982 ¹	375
Loy Yang A2	1984	500
Loy Yang A1	1985 ²	500
Loy Yang A3	1986	500
Loy Yang A4	1987	500

¹ Labor Elected

² Decision to proceed on schedule with 2000MW Loy Yang B

Source: SECV Annual Report 1986, 1993

Table 2 shows that Newport D and Yallourn 3 were installed before Labor took office; Yallourn 4 was installed in its election year. In 1982 Labor therefore inherited both excess capacity and construction contracts for Loy Yang A. Construction of the 500 MW Loy Yang A2 was well advanced in 1982 though several years overdue (it became operational in 1984). Assuming that it was impractical to stop or slow construction, it seems reasonable that it was finalised and the plant commissioned even though the additional capacity was not required for four years. However, from Table 1 the additional capacity from Loy Yang A1 and A3 was available at least three years before it was required and at a time when there was 1000 MW of capacity in excess of a 22.5 percent RPM. This extent of excess capacity is the same as having a large power plant lying idle. How costly were these decisions? Table 3 estimates that the total opportunity cost of excess capacity of the full 2000MW Loy Yang A project was \$1050 million.

Table 3 – Estimate of The Opportunity Cost of Funding Over Capacity at 22.5 percent RPM (Historical Cost) – Loy Yang A

Year Ended 30 June	Actual Capital Expenditure (Excluding Interest) \$m	Plant Installed	Plant Required	Opportunity Cost of Excess Capacity at 12.5% Interest Rate \$m
1982				
1983				
1984	645	LYA2	1988	324
1985	645	LYA1	1988	242
1986	645	LYA3	1989	242
1987	645	LYA4	1990	242
1988				
1989				
1990				
Total	2580			1050

Source: Derived from SECV Annual Report 1986, 1992 and Dreyfus (1998, A19-3)

Table 3 assumes that, given the total capitalisation of Loy Yang A units 1 to 4, each 500 MW unit represents 25 percent of this and that construction costs were incurred in the year of commissioning; construction actually occurred over ten years. This simplifying assumption and the use of historical cost therefore means that estimates of the cost of excess capacity are conservative. Further, interest expense is averaged at 12.5 percent which is also conservative for the 1980s. The opportunity cost of generating capability in advance of demand, is calculated by applying the 12.5 percent interest rate to capital expenditure for each year that commissioning could have been delayed. For example, Loy Yang A2 cost \$645 million: at 12.5 percent interest each year it was available in advance of requirements represented an opportunity cost of \$81 million. As it was available four years in advance, the opportunity cost for Loy Yang A is calculated as four times \$81 million or \$324 million.

Table 3 presents an historical cost estimate of over capacity for Loy Yang A1, A3 and A4 of \$726 million or \$81 million for each year that a 500 MW module was not required. With a less generous assumption regarding the avoidability of Loy Yang A2, and assuming that deferring construction would not, on balance, have added to construction costs, then the total opportunity cost of Loy Yang A over capacity was \$1050 million. This expenditure could have been used to retire debt associated with Yallourn W, or for a range of other purposes. Significantly, while interest rates rose over the 1980s, SECV management could have 'locked in' at a better rate well in advance of taking up loans. It does not follow therefore, that deferring construction would have resulted in higher interest costs.

Table 3's \$1050 million estimate of the cost of avoidable excess capacity (construction able to be delayed) is significantly less than the cost derived if the excess capacity, as presented in Table 1, was averaged and a cost of capital applied. On that basis, the cost is much higher as the average over capacity for Labor's ten years was 793 MW. This over capacity, at a conservative cost of \$645 million per 500 MW or \$1.29 million for each MW (from Table 3), translates, for the Labor years, into a capital cost of \$1022 million. When a 12.5 percent interest rate is

applied to this amount the annual cost of \$128 million translates into a total opportunity cost of \$1280 million for the Labor years. Dreyfus (1998, 53) presents a further perspective and uses two techniques, one based on deferring plant of the same size and the other adding plant in smaller increments to estimate the cost of over capacity. She calculates that the interest cost alone of these two views of avoidable excess capacity from 1979 to 1993 (which also covers expenditure on Loy Yang B) was \$1297 million and \$2877 million respectively, in 1993 dollars.

While estimates of the cost of over capacity vary, for the purposes of this thesis the precise cost of excess capacity, having established that it was very significant, is not as critical as the rationale for the fundamental decisions or non-decisions to proceed on schedule with Loy Yang A and B. Construction proceeded in the face of considerable excess capacity and was largely funded by debt. The timing and cost of these decisions both financially, and later politically, makes them two of the major strategic decisions taken by the SECV and the Labor Government.

Plant Availability and Other Capital Productivity Measures

In the late 1980s the EBRC, while inquiring into public utility debt levels also considered capital productivity, with a focus almost exclusively on plant availability. Its reasons for not considering issues such as load factor, reserve plant margin and capacity factor, was due to this having been studied in some detail as part of an IAC (1989) report on the electricity supply industry (EBRC 1990).

With its focus on plant availability, and its definition of this as 'the proportion of time that a generating unit is available to produce its maximum power or capability', the EBRC formed the view that 'the higher the level of plant availability the better' (1990, 125). This was because the EBRC contended that plant availability affected electricity supply costs in two ways. First and fundamentally, availability of lower cost units reduced the need to operate higher cost plants. Second, high availability reduced the total capacity required to meet demand and the extent of reserve plant needed for a reliable system. While the EBRC investigation may seem academic given the high

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levels of SECV excess capacity, it concluded that there was potential, through increased plant availability, for proposed additional plant capacity to be deferred (1990, 126).

The EBRC (1990, 126) referred to Garlick (1987), a consultant to the Natural Resources and Environment Committee (NREC), a Joint Committee of the Victorian Parliament, who in 1987 estimated that there was the capability to increase the availability of SECV brown coal fired plants by 10 percent. As SECV installed capacity in 1987 was 7503 MW, this increased availability would have removed the need for one 500 MW brown coal fired unit based on the conservative application of two-thirds of Garlick's estimate. The IAC (1989, 61) had also referred to Garlick's work and the potential savings from increased plant availability.

The EBRC saw a clear connection between the capital productivity measure of plant availability and work practices, as this 'significantly determines the length of time plant is unavailable' (1990 126). It concluded that the SECV needed to improve work practices and industrial relations, if plant availability were to increase. The EBRC also took the view that the extent to which shift maintenance was conducted by permanent staff and contractors was critical. It recommended that the SECV should examine improvements in the conduct of maintenance in New South Wales and Queensland and consider increasing its use of external contractors (EBRC 1990, 128).

Together with excess generating capacity and its costs, the prospect of savings from increased plant availability is further evidence of poor SECV capital productivity. The previously discussed excess capacity was grossly inefficient with considerable investment in unnecessary capital. It seems that this excess capacity permitted a 'comfort zone' which allowed inefficient maintenance practices and reduced the need to improve plant availability or to reduce demand on the system through demand management techniques. Drawing on the previous analysis, increased plant availability had the potential to save the SECV an investment of \$81 million per year in unnecessary plant. This estimate is based on the premise that 500 MW of capacity could be found by improved plant availability, and it assumes a cost of \$645 million per 500 MW at 12.5 percent opportunity cost as presented in Table 3.

Having established at this point the basic capital inefficiency of the SECV, other capital productivity measures, such as capacity factor and load factor, will not be discussed at length. Moreover improvements from 1982 to 1992 in these areas were achieved in concert with gross excess capacity. The extreme levels of excess capacity significantly reduce the relevance of capacity factor and load factor as productivity measures. Capacity factor is a measure of energy generated as a function of the energy that could have been generated, if a plant operated continuously. This measure improved over the 1980s (IAC 1989, 55). However, this was largely due to consumption growth over this time, not because of management extracting more from plant; consequently the measure is of little use as an indicator of management performance. Similarly, load factor, which measures the relationship between average load supplied and maximum load demand on the system, showed improvement over the 1980s (IAC 1989, 63). Again though, as this measure is really a measure of the mix of generating plant required to meet variable load requirements efficiently, and with high excess capacity being mitigated by consumption growth, management was not really tested to achieve this improvement.

Labour Productivity

Capital productivity measured by capacity utilisation and plant availability was poor in the Labor years. This was not the case with the other major productivity dimension, that of labour, where significant increases in production over the period were accompanied by a dramatic reduction in personnel. Table 4 shows that, between 1982 and 1992 total employees fell from 21,891 people to 14,827, a 32 percent reduction. On face value this would seem to be a significant productivity improvement and evidence that management had addressed overmanning and poor work practices. However, putting aside the 1983 increase in total personnel, between 1982 and 1989 the number of employees remained largely unchanged, decreasing only by 340 from 21,891 to 21,551. This modest reduction was in the context of the overmanning and counterproductive work practices rife in the Latrobe Valley, which were abundantly clear to the SECV and Labor.

Table 4 – SECV Personnel Statistics, 1982-1992

Employees as at 30 June	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Head Office	7523	7800	7630	7133	6783	6563	6186	6067	4357	4029	3505
Latrobe Valley	8793	9351	9509	9590	9481	9578	9859	9644	8481	7435	7103
Regions	5575	5647	5687	5795	5781	5749	5665	5840	5124	4406	4219
Total	21,891	22,798	22,826	22,518	22,045	21,890	21,710	21,551	17,962	15,870	14,827
Retrenchments									2807	1952	967
Other Terminations	2117	1535	1456	1633	1778	1878	1945	2088	1090	373	167
New Appointments	2782	2442	1484	1325	1305	1723	1765	1929	308	233	91

Source: SECV Annual Report 1986, 1993

As referred to in Chapter 3, Rheinbraun Consulting (1982), one of a panel of four consultants to the DMB Committee of Review of Loy Yang Costs and Management (DMB 1982), reported to the Committee in 1982 that it had estimated that for a German equivalent to Loy Yang A, 65 'men' would be required for the 'management and supervision' of construction whereas the SECV employed 130 for this purpose (1982, 38). Further, Rheinbraun Consulting claimed that overmanning was not restricted to the Loy Yang A capital project, and estimated that its future operations would cost some \$2 million extra per year because 81 more people would be employed than were necessary (1982, 35).

A further source on the subject of overmanning was an IC Inquiry into energy generation and distribution (1991a). The IC presented considerable evidence of productivity improvements by the industry generally, including the SECV, but also contended:

Poor investment decisions leading to excess capacity and gross overstaffing during the 1980s provide the most striking evidence that electricity and gas have not been supplied at least cost...the 18 percent cut (in staffing levels) by the State Electricity Commission of Victoria (SECV) in the 18 months to June 1990 provide some indication of the extent of overstaffing that existed through much of the 1980's (IC 1991a, 1).

The final three years of Labor, 1990 to 1992, were when employment numbers fell dramatically. Why this occurred in 1989 and subsequent years, and not earlier, and how it was managed is one of the fundamental questions about the SECV under Labor. The sheer size of the change is sufficient for it to loom as a major management issue. This is particularly so, when considered against the industrial relations background of disputation over relatively trivial issues raised in Chapter 3, and in the context of lifetime employment that was part of the SECV culture. This important organisational change is considered in subsequent chapters where the impact of commercialisation and corporatisation on the SECV is discussed.

However, there are some most interesting trends evident in the bald personnel statistics without that future analysis. Prominent among these trends, is the changing relative role of head office based departments versus Latrobe Valley based departments. While the head office proportion of all employees fell from 34 percent of all employees in 1982 to 23 percent in 1992, the Latrobe Valley proportion increased from 40 percent to 48 percent over the same period. Another employment trend in the male dominated SECV (women did not exceed 8 percent of the workforce at any time) was that while the total reduction in employees was 32 percent over the period, the Latrobe Valley reduction was only 20 percent. Taken together, these trends suggest that much of the SECV redundancy program was directed at removing employees not directly engaged in the Latrobe Valley production function.

A standard labour productivity measure is to relate the number of employees to output over time. Table 5 matches the principal SECV output, electricity measured in GWh, to labour input. It also relates this output item to the cost of labour and associated expenses. This permits identification of substitution between production inputs, so that dramatic staff reductions are not unreasonably interpreted as general productivity improvements.

Table 5 -- GWh Sales and Expenses per Employee 1981/82 to 1991/92

	GWh Per Employee	% Change	GWh Per Head Office Employee	% Change	GWh Per Latrobe Valley Employee	% Change	GWh Per Regional Employee	% Change	GWh Per Labour & Associated Expenses ¹	% Change
1980/81	0.92		2.65		2.32		3.52			
1981/82	0.93	1.1	2.71	2.3	2.32	-	3.68	3.7	15.68	
1982/83	0.89	-4.5	2.61	-3.7	2.18	-6.0	3.61	-1.1	18.12	15.6
1983/84	0.92	3.4	2.76	5.7	2.21	1.4	3.71	2.8	17.10	-6.0
1984/85	0.95	3.2	3.01	9.1	2.25	1.8	3.72	0.3	17.39	1.6
1985/86	1.01	6.0	3.31	9.9	2.37	5.3	3.88	4.3	18.35	5.5
1986/87	1.09	7.9	3.64	9.9	2.49	5.1	4.15	6.9	21.68	18.1
1987/88	1.22	11.9	4.29	17.8	2.69	8.0	4.69	13.0	24.37	14.4
1988/89	1.36	11.5	4.85	13.1	3.05	13.4	5.04	7.5	28.45	14.6
1989/90	1.71	25.7	7.05	45.4	3.62	18.7	5.99	18.8	30.56	7.4
1990/91	1.95	14.0	7.66	8.7	4.15	14.6	7.01	17.0	27.51	-11.1
1991/92	2.09	7.2	8.83	15.3	4.35	4.8	7.34	4.7	28.16	2.4

¹ GWh per labour and associated expenses relates GWh to the expense item 'labour, materials, contracts and miscellaneous' drawn from the annual Profit and Loss Statement and is obtained by dividing total GWh sales for each year by this expense item in \$m adjusted by the Melbourne CPI to 1992 dollars (see also Table 8).

Source: Derived from SECV Annual Report 1986, 1993

From Table 5 the raw measure of labour productivity, GWh per employee, shows a significant improvement over the ten years to 1991/92. While there were considerable fluctuations over this period as expected, the last three years were the most dramatic. For the total period the number of employees dropped by 32 percent and GWh per employee rose from 0.93 to 2.09 an increase of 125 percent. Within this overall productivity increase, three sub-divisions of labour are also presented Head Office, Latrobe Valley and Regional. These categories of labour contributed disproportionately to the overall productivity increase. Table 6 outlines the productivity increase for each of the three categories:

Table 6 – Labour Productivity Change, 1981/82 to 1991/92, by Location

Location	GWh Per Employee 1981/82	GWh Per Employee 1991/92	Percent Change
Head Office	2.71	8.83	+225.8
Latrobe Valley	2.32	4.35	+87.5
Regional	3.68	7.34	+99.5
Overall	0.93	2.09	+124.7

Source: Derived from SECV Annual Report 1986,1992

While improvement was substantial in the Latrobe Valley and Regions, the Head Office advance was dramatic by comparison and is reflective of the drop in employment numbers from 7523 in 1982 to 3505 in 1992 from Table 4. Furthermore, there is no evidence that this comparatively superior performance was due to any significant shift of Head Office employees to the Latrobe Valley or the Regions. Though impressive, these raw productivity measures must be tempered by the impact on output per worker of consumption growth taking up available capacity as the new and more efficient Loy Yang A infrastructure was in place to accommodate increased demand.

The final two columns in Table 5 present the cost of 'labour, materials, contracts and miscellaneous' inputs to the production process. This can point to the likelihood of factor substitution where this exists and it also puts movements in labour productivity into a cost context. Table 5 shows, in real terms, that in 1981/82 for each \$ 1 million of expenditure on 'labour materials, contracts and miscellaneous' 15.68 GWh were sold, this increased to 28.16 GWh for each \$1 million by 1991/92, a rise of 80 percent. This reinforces the labour productivity growth previously presented. However it also points to production factor substitution in the last three years, when the number of employees fell by 32 percent, and the expense item remained relatively stable. The savings in 'labour' costs were largely taken up by increases in costs of 'materials, contracts and miscellaneous'. This demonstrates how single factor productivity measures (in this case labour) can be misleading. However, productivity did improve significantly over the ten years when direct labour and substitutions are taken as one.

On balance it is argued that the real or underlying labour productivity improvement under Labor was more than 80 percent after discounting the raw GWh per employee figures in Table 5 for the substitution effect in the three years to 1992. Further, this productivity improvement occurred in a difficult industrial relations climate. How the SECV achieved this improvement is discussed in subsequent chapters, as is the proposition that this outcome was largely possible, because initial overmanning and poor work practices in concert with gross excess capacity, meant that there was much room for efficiency gains.

Total Factor Productivity

A measure that distils a range of productivity variables into one is total factor productivity (TFP) which 'measures the ratio of the quantity of output to the quantity of all inputs used' (IAC 1989, 75). It follows that while inputs such as technical developments, advances in efficiency and so on can have an impact on TFP that such partial productivity measures can vary in their contribution. Because of the number of inputs that must be combined to produce a total input measure, an indexing procedure is used. However this procedure is not without its complications and critics. Concerns

arise from TFP not actually being a measure of all factors. For example, TFP includes labour, capital and technology inputs but not institutional change. Here, TFP is used not to unequivocally determine SECV performance, but rather to point in a general direction in conjunction with a range of other measures.

It is outside the scope of this thesis to develop TFP measures for the SECV. This would be a major study requiring a degree of economic modelling. Fortunately the IAC (1989), based on the work of Swan (1988) and others, and its own investigations, developed such a measure for Australian electricity utilities up to the late 1980s. The outcome of this IAC work has been distilled to permit broad conclusions about performance based on estimates of TFP.

The IAC produced two streams of productivity measures in relation to the electricity industry; TFP and the Terms of Trade (TOT). Table 7 presents these two measures for the SECV for the period 1954 to 1988. The IAC concluded that the TOT for Victoria (the relationship between prices charged for electricity and the price of inputs used to produce and distribute electricity) fell from 1.00 to 0.46 (IAC 1989, 89), in other words, the TOT declined by more than 50 percent. This decline means that tariffs did not keep pace with increases in the price of inputs. Over the same period TFP, which combines labour, capital, fuel and 'other' indices into a total productivity index for Victoria, increased from 1.00 to 2.65.

Table 7 – SECV Total Factor Productivity and Terms of Trade, 1954/55 to 1987/88

Year	1954/ 55	1964/ 65	1974/ 75	1980/ 81	1981/ 82	1982/ 83	1983/ 84	1984/ 85	1985/ 86	1986/ 87	1987/ 88
Terms of Trade	1.00	.74	.51	.47	.50	.52	.53	.51	.50	.48	.46
Total Factor Productivity	1.00	1.58	1.95	2.25	2.28	2.35	2.23	2.31	2.42	2.43	2.65

Source: Industries Assistance Commission (1989, 89)

These two measures, while covering only part of Labor in Government, demonstrate a steady improvement in total productivity which occurred in combination with relative price reductions. From Table 7 it can be calculated that the TOT improved eight percent between 1981/82 and 1987/88 while over the same period the improvement in TFP was 16 percent. This direction reinforces the general trends of other indicators in this chapter that operational performance improved over the period 1982 to 1992. Table 7 also reveals that improvements under Labor were not unusual but were an extension of a positive trend commencing in 1954/55. However, in the case of TFP it could be expected that significant increases would have occurred after 1988 as consumption growth eroded excess capacity.

Financial Performance

The data suggests that SECV productive efficiency improved steadily between 1982 and 1992, that there was poor but improved capital productivity, and that there were substantial costs associated with excess capacity and delays in genuine labour productivity advances. It is critical then, to see how this profile translated into overall financial performance. Two measures, which taken together, can be used to present financial trend data and to assess the short, medium and long term financial performance of an organisation are a review of financial reports over time and financial ratio analysis.

Ratio analysis explores relationships between elements of financial statements, such as assets and liabilities, and seeks to make deductions about the financial status and performance of an organisation and trends in this over time. A Queensland Government Task Force on GBE Performance Monitoring (QPM 1991) argued that, while there were certain limits on ratio analysis, financial ratio indicators provide the most readily available measures for Governments seeking to monitor the progress of their GBEs (QPM 1991, 5). A review of financial reports presents changes from year to year in individual report items, which is generally referred to as 'horizontal analysis' (Hogget and Edwards 2000, 863). Horizontal analysis, together with trends in financial

statements over time, provides a context for the ratio analysis, helps to explain some of the changes in the ratios and mitigates conclusions based entirely on ratio analysis. For the sake of brevity only significant items and important trends are presented.

Analysis of SECV Financial Reports

The following horizontal analysis and trend analysis is presented under the headings of profit and loss statement and balance sheet; also, where appropriate, it relates these to production and customer data to provide an extra dimension of financial performance.

Profit and Loss Statements

Table 8 presents key elements of Profit and Loss Statements for the eleven years ended 30 June 1992. An explanation of the major elements of the statements follows.

Table 8 – Simplified SECV Profit and Loss Statement, 1982-1992

Year Ended 30 June	1982 \$m	1983 \$m	1984 \$m	1985 \$m	1986 \$m	1987 \$m	1988 \$m	1989 \$m	1990 \$m	1991 \$m	1992 \$m
Revenue – Electricity	1073	1262	1403	1522	1665	1866	2091	2285	2493	2676	2760
– Other	35	37	99	99	119	157	116	129	138	319	540
Total Revenue	1108	1299	1502	1621	1784	2023	2207	2414	2630	2995	3300
Expenses – Labour, etc. ¹	653	628	740	778	834	822	873	927	930	1098	1099
– Finance ²	271	312	359	498	604	738	826	895	1026	957	961
– Depreciation	117	146	176	168	196	225	267	319	363	428	479
– Assets Sold										194	393
– Other ³	1	107	116	99	109	99	120	121	153	166	212
Total Expenses	1042	1193	1390	1543	1743	1883	2086	2263	2472	2842	3145
Net Profit	64	61 ⁴	112	78	41	140	122	151	158	153	156
Retained Earnings	8	13	54	62	142	166	47	68	103	72	76
Available Funds	72	74	166	140	183	306	169	219	261	225	232
Less – PAD	59	24	104	70	80	165 ⁵	100	116	120	140	210
– Other Appropriations						95			68		
Retained Earnings	13 ⁶	51	62	70	103	46	69	103	73	85	23

¹ Comprised of Labour, Materials, Contracts and Miscellaneous

² Includes Losses on Foreign Exchange Dealings

³ Includes Purchased Electricity and Fuel and Government Royalties and Levies

⁴ Net of \$45m Claims for Bushfire Losses

⁵ Includes \$90m Transfer to Dividend Distribution Reserve

⁶ There were Several 'Miscellaneous Transfers' to and from Retained Earnings

Source: SECV Annual Reports 1990, 1993.

Revenue - Table 8 shows that, from 1981/82 to 1991/92, revenue increased threefold from \$1.1 billion to \$3.3 billion. Of this, electricity revenue comprised 97 percent initially, reducing to 84 percent by 1991/92. Revenue from 'other' sources in 1991/92 was \$540 million. Of this, over \$130 million was attributed to such items as 'contributions from capital works' and 'amortisation of research and development contributions', which grew steadily and slightly more quickly than electricity sales over the entire period (SECAR 1992). However, the principal 'other' contribution in 1991/92 was \$372 million from the sale of assets (SECAR 1992); in 1990/91 this source had contributed \$197 million to 'other' revenue (SECAR 1991). Before 1990/91 the sale of assets was not a significant source of revenue.

While the written down value of assets sold is brought in as an expense and hence the sale of assets does not distort reported profit results, caution is required if conclusions are drawn regarding organisational performance based on bald revenue proceeds for 1991 and 1992. If 'other' sources of revenue is removed from total revenue, or even if the subset 'sale of assets' is removed from the 'other' category, operating performance as measured by the relationship between revenue and expenses, such as labour, materials and contracts, is diminished. Nevertheless, it is noteworthy that the expense item, 'labour, etc', represented 63 percent of revenue from electricity in 1982, this proportion was reduced to 40 percent by 1992. Further, it is argued in the following pages that there was considerable potential to increase revenue via tariff increases which would have further improved this performance measure.

Electricity Sales and Tariff Policy - Over the years 1981 to 1992 the GWh of electricity sold per year increased by 52 percent. Table 9 shows that both the number of customers and the average consumption of electricity increased in this period. Customers increased from 1,343,000 to 1,631,000 and the average kWh sold per retail customer rose by 29 percent from 12,435 to 16,057. This increase in average consumption was attributable entirely to non-domestic customers; average domestic consumption per customer decreased steadily over the period.

A steady increase in total electricity sales occurred over the period with the notable exception of the two years to June 1988 and 1989 when year on year percentage increases were 11 percent annually, compared with an aggregate increase of 17 percent for the five years to 1987. This comparatively dramatic increase in sales was due to the full year effect of the Alcoa aluminium plant at Portland coming on stream, and demonstrates the significance of that development for the SECV. This Alcoa impact is also reflected in the average kWh sales per customer shown in Table 9 where the effect on the industrial average was translated into a 21 percent increase in the 'all customers' average for 1989 over 1987.

Table 9 – Electricity Sales and Customer Statistics, 1981/82-1991/92

Year Ended 30 June	Number of Customers 000	Total Electricity Sales GWh	kWh Sold Per Customer (Average) ¹			
			Domestic	Commercial	Industrial	All Customers
1982	1343	20369	5793	23,795	84,064	12,435
1983	1363	20393	5762	24,443	82,403	12,172
1984	1390	21082	5706	25,172	85,862	12,438
1985	1423	21541	5656	25,901	86,125	12,422
1986	1457	22449	5645	26,892	90,025	12,655
1987	1486	23888	5649	28,088	107,335	13,287
1988	1518	26565	5538	30,114	127,824	14,687
1989	1555	29448	5485	30,998	151,236	16,088
1990	1586	30715	5598	32,578	156,605	16,206
1991	1607	30871	5568	33,632	159,281	16,054
1992	1631	30958	5457	33,179	160,971	16,057
Percentage Change	+21.4	+52	-5.8	+39.4	+91.5	+29.1

¹ Average customer statistics excludes bulk supplies to municipal undertakings.

Source: SECV Annual Report 1986, 1993

In the period 1981 to 1992 the price per kWh of electricity sold to retail customers rose steadily. Table 10 shows this and also that the rate of increase varied between category of customer. Between 1981 and 1992 domestic prices increased by 103.8 percent, commercial by 65.5 percent and industrial by 48.8 percent. It is noteworthy that average SECV retail tariff increases under Labor were more than 33 percent less than increases in the Melbourne CPI. However, this statistic needs qualifying in light of the tariff arrangement Labor set for Alcoa, which was significantly less than the then industrial average. This Alcoa tariff pulled back the 'All Retail Customers' average increase for the ten years, which reinforces from another perspective the importance of the Alcoa project. Because of the Alcoa effect on average tariff increases, to argue that there was some 33 percent of CPI related tariff increase not taken under Labor does over simplify the situation. Nevertheless, there was considerable scope to raise additional revenue via tariff increases, putting aside the even higher level of tariff that a profit maximising monopoly could charge, and allowing for the special tariff arrangements with Alcoa. While it is also true that price increases can reduce demand, it is reasonable to expect, as electricity has a substantial component of inelastic demand, that modest price increases would largely translate into revenue increases.

The importance of even a small tariff increase, of three percent, is demonstrated by the application of an average price increase from 1981 to 1992 of 69 percent instead of the 66 percent actual increase for all retail customers shown in Table 10.

Assuming no reduction in sales accompanied the three percent higher tariff increase, and based on electricity sales revenue from Table 8, which totals \$21,096 million, this extra three percent would have generated \$632 million of additional income at historical cost. This income increase could have been achieved with a tariff regime that was still 30 percent less than CPI increases over the period. The powerful force of such a small change is compelling evidence of the policy options available under a more aggressive tariff regime when \$632 million was sufficient to almost pay for one Loy Yang A Unit.

Table 10 – SECV Tariff Changes and the Melbourne CPI, 1982-1992

Year Ended 30 June	Melbourne CPI	Average Price per kWh Sold (cents)			
		Domestic	Commercial	Industrial	All Retail Customers
1982	54.2	5.2	8.4	4.1	5.3
1983	60.3	6.1	9.6	4.9	6.2
1984	64.9	6.7	10.4	5.1	6.7
1985	67.8	7.1	10.9	5.5	7.2
1986	73.6	7.5	11.4	5.7	7.5
1987	80.5	8.0	11.9	5.9	7.8
1988	86.4	8.6	12.2	5.7	7.8
1989	92.3	8.9	12.5	5.5	7.7
1990	100.0	9.3	12.8	5.8	8.0
1991	105.8	9.9	13.5	6.1	8.5
1992	108.1	10.6	13.9	6.1	8.8
Percentage Change	+99.4	+103.8	+65.5	+48.8	+66.0

Source: SECV Annual Reports 1986,1993

ABS 6401.016 Consumer Price Index, 1998

Tables 9 and 10 on electricity sales and tariffs emphasised the fundamental importance of several policy decisions and raised a number of questions for later examination. Table 9 shows that in the period 1981 to 1992 average sales volume of electricity to the domestic market fell by 6 percent, commercial sales rose by 39 percent and industrial sales by 92 percent. This trend, together with the movement in prices, where as Table 10 shows the rate of increase in domestic tariffs was double that of industrial tariffs, raises questions about SECV demand management practices and about Labor's energy conservation and economic development policies. However, it also brings into question earlier SECV techniques for demand forecasting and its decision-making processes on power station construction. The

facts are that, under an attractive pricing regime (33 percent less than the CPI), with a significant growth in the number of customers and in their average consumption, demand was such that a serious level of excess capacity existed. A further issue of significance was the Alcoa project with its easily discernable upward impact on average electricity consumption and on tariffs, where it was large enough to cause a drop in the average retail price of electricity. Finally, the revenue raising potential of small tariff increases was a major opportunity to change the SECV financial position that was not taken up.

Expenses – Calculations from Table 8 show that between 1981 and 1992 total expenses, less finance charges and assets sold, increased 132 percent from \$771m to \$1791m. Significantly, the sub category 'labour, materials, contracts and miscellaneous' rose by only 68 percent which was less than the Melbourne CPI increase for the period of 99 percent. Other expenses, such as depreciation, purchases of electricity and fuel and Government royalties and levies, all rose considerably more than this. Depreciation increased four-fold, which was broadly in line with asset growth. This increase was not due to a changed accounting treatment, a ploy that can distort year on year comparisons, in 1992 depreciation was 15 percent of total expenses, in 1982 it was 11 percent.

Table 11 indicates that the expense 'labour, materials, contracts and miscellaneous.' was a decreasing proportion of electricity revenue falling from 63 percent to 40 percent. This fall is a crude indicator of improved productivity. However, Table 11 also presents a further perspective, where in the final two years of the period this expense item was around 40 percent of revenue, a proportion that was established in 1989. While this was significantly better than the case in 1982, it is an indicator that there was very little real improvement over the four-year period to 1992. Significantly this was the period when growth in electricity sales levelled off and when the SECV, under a corporatisation push, was heavily involved in establishing a new organisation structure and in reducing its number of employees by 30 percent.

Table 11- Major Expenses as a Percentage of Electricity Revenue (Nominal Dollars),
1982-1992

Year Ended 30 June	Revenue from Electricity \$m	Labour, Materials, Contracts & Miscellaneous		Depreciation		Finance Expenses Less Capitalised Finance Charges ¹	
		\$m	% of Rev.	\$m	% of Rev.	\$m	% of Rev.
1982	1073	653	61	117	11	271	25
1983	1262	628	50	146	12	312	25
1984	1402	740	53	176	13	359	26
1985	1552	778	50	168	11	498	32
1986	1665	834	50	196	12	604	36
1987	1866	822	44	225	12	738	39
1988	2091	873	43	267	13	826	41
1989	2285	928	41	319	14	895	39
1990	2493	929	37	363	15	1026	41
1991	2676	1098	41	428	16	957	36
1992	2760	1099	40	479	17	961	35
Total ²	21073	9382	45	2884	14	7447	35
Percentage Increase 1982-1992	157	68		309		255	

¹ Includes Amortised Foreign Exchange Losses of \$430m, excludes capitalised finance charges

² Total includes Part Year 1981/82 when Labor was not in Government.

Source: SECV Annual Reports 1986, 1992

The significance of finance expenses for the SECV is best demonstrated by its relationship to electricity revenue. Table 11 shows that for 1981/ 82 finance expense was 25 percent of electricity revenue, by 1991/92 it was 35 percent. Significantly though, from 1990 to 1992 finance expense had stabilised and fallen in absolute terms, and it had fallen in real terms since the middle of the decade. The years when finance

expense increased in prominence were 1985 to 1987. Against this background, and the trend of the early Labor years, the 1992 position was a considerable improvement.

Net Profit and Public Authority Dividend – From Table 8 net profit rose steadily from 1982 to 1992 with the years to June 1985 and 1986, the only examples where profit fell significantly over the previous year. For the Labor period, total revenue increased by 198 percent and profit before finance charges increased by 183 percent while net profit only increased by 144 percent. This less than proportionate increase in net profit reflects the significance of finance charges which grew almost 255 percent over the period to \$961 million in 1991/92. Net profit was 5.8 percent of total revenue in 1982 and had fallen to 4.7 percent by 1992. In 1990 however, net profit was six percent of revenue with the final two years showing a ‘tailing off’ of profit performance. This tailing off is not as pronounced if ‘other’ revenue is excluded and net profit is related only to electricity revenue; in this case the fall is from 6.3 percent in 1989/90 to 5.7 percent in 1991/92.

The SECV Public Authority Dividend (PAD) was not always related to net profit. It increased from a low of \$24 million in 1983 to \$210 million by 1992, which in turn was a 50 percent increase over 1991. While this is discussed in some detail under the financing section of this chapter, overall SECV performance would have been enhanced considerably if its PAD requirement had been retained as a source of internal funding. If for example, from 1988 when PAD represented 82 percent of Net Profit the Government had required the same future percentage contribution, a further \$105 million would have been available by 1992 for purposes such as debt retirement. This was not the case and the PAD was a significant restriction on financial management flexibility. This restriction was particularly evident in 1992, when the PAD was set as \$210 million while net profit was \$156 million, the shortfall being made up from retained earnings.

Table 12 – Simplified SECV Balance Sheet at Historical Cost, 1982-1992

As at 30 June	1982 \$m	1983 \$m	1984 \$m	1985 \$m	1986 \$m	1987 \$m	1988 \$m	1989 \$m	1990 \$m	1991 \$m	1992 \$m
Current Assets	246	362	368	428	422	522	670	648	706	579	654
Non-Current Assets											
Net Fixed Assets	3667	4512	5221	5985	6758	7181	7656	8279	8864	9963	10,219
Open Cut Development	14	30	49	48	47	44	112	137	170	173	185
Leased Plant & Equipment ¹	42	78	117	93	79	234	220	269	279	325	346
Deferrals & Investments ²	117	138	91	354	402	308	177	109	36	34	68
Materials										65	52
Total Assets & Deferrals	4085	5119	5846	6909	7707	8289	8834	9441	10,055	11,140	11,523
Current Liabilities	546	413	927	1226	1251	1381	1548	1984	2140	1945	2247
Non-Current Liabilities	3308	4487	4641	5392	6134	6328	6444	6392	6845	7137	7146
Deferred Revenue	-	-	41	26	25	32	29	34	27	16	13
Equity	230	219	238	265	297	548	812	1031	1043	2042	2117
Total Liabilities & Equity	4085	5119	5846	6909	7707	8289	8834	9441	10,055	11,140	11,523

¹ Written Down Value

² Includes Deferred Expenses, Deferred Debtors and Investments

Source: SECV Annual Report 1990, 1993

Balance Sheet

Having considered profit and loss statements to develop a partial view of the financial performance of the SECV raises the need to consider the other principal financial report, the balance sheet, to develop an appreciation of its financial status. Basic balance sheet information is presented in Table 12.

Assets - While current assets increased over the period 1982 to 1992 from \$246 million to \$654 million, the rise in net fixed assets was most striking. This increased from \$3667 million to \$10,219 million, a 179 percent rise and was the most profound of all balance sheet changes; it drove huge increases in liabilities and equity. Net fixed assets in Table 12 are valued at historical cost; a replacement cost valuation would have meant higher asset values and an enhanced balance sheet. However, the historical cost valuation did include capitalised finance charges and it can be argued that this overstates asset values. The shift in leased plant and equipment from \$42 million to \$346 million was the greatest percentage increase in assets, but was less significant in absolute terms, though it was reflective of a change in policy from direct ownership of such assets.

The asset class 'deferrals and investments' was the most volatile over the period 1982 to 1992. While relatively unimportant up to 1984 and from 1989 to 1992, deferred expenses was a much more significant item from 1985 to 1988, peaking at \$402 million in 1986. The 1986 Annual Report refers to this item as 'deferred charges' (SECAR 1986, 25) and when presenting comparative statistics for 1986 against 1985 discloses that foreign exchange losses for the two years were \$316 million and \$266 million respectively (SECAR 1986, 33). The period 1985 to 1988 was the worst in terms of the SECV balance sheet under Labor.

Liabilities and Equity - The growth in non-current liabilities from \$3308 million to \$7146 million between 1982 and 1992 funded in part the previously mentioned 179 percent increase in net fixed assets to \$10.2 billion. Over the same period, the balance sheet improved considerably; this is reflected in the growth in equity to \$2117 million

by 1992 from \$230 million in 1982. The basis of that increase in equity was that, while liabilities in the form of debt was an obvious issue, the value of assets grew more quickly. The result was that equity, the difference between assets and liabilities, increased ninefold. A replacement cost valuation of assets would have resulted in an even greater growth in equity.

Financial Ratio Analysis

The following financial ratio analysis is drawn from financial data presented in SECV Annual Reports over the period 1982-1992. A range of financial ratios are presented in Table 13 under the headings of Profitability and Performance, Financial Health, and Dividends. These ratios express relationships between two items or groups of items and permit conclusions to be drawn about changes in that relationship over time.

Table 13 – SECV Financial Ratios 1982-1992

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Profitability & Performance											
- Return on Assets (EBIT/Total Assets)	8.2%	8.2%	8.1%	8.3%	8.3%	10.6%	10.7%	11.1%	11.8%	10.0%	9.7%
- Return on Equity (Net Profit/Equity)	28.0%	27.8%	46.9%	29.4%	13.7%	25.5%	15.0%	14.6%	15.1%	7.5%	7.4%
- Return on Revenue (EBIT/Total Revenue)	30.3%	32.2%	31.3%	35.5%	36.1%	43.4%	42.9%	43.3%	45.0%	37.1%	33.8%
- Return on Revenue (Net Profit/Total Revenue)	5.8%	4.7%	7.4%	4.8%	2.3%	6.9%	5.5%	6.3%	6.0%	5.1%	4.7%
Financial Health											
- Gearing (Total Liab/Total Assets)	0.94	0.96	0.96	0.96	0.96	0.93	0.91	0.89	0.90	0.82	0.82
- Gearing (Total Liab/Equity)	16.73	22.34	23.62	25.11	24.96	14.12	9.87	8.16	8.64	4.47	4.44
- Times Interest Covered (EBIT/Interest)	1.20	1.19	1.31	1.16	1.06	1.19	1.15	1.17	1.15	1.16	1.16
Dividends											
- Dividend Return (Div./Equity)	25.5%	10.8%	43.7%	26.5%	26.9%	30.1%	12.3%	11.3%	11.5%	6.9%	9.9%
- Times Dividend Covered (Net Profit/Dividend)	1.08	2.54	1.07	1.11	0.51	0.85	1.22	1.30	1.31	1.09	0.74

Source Derived from SECV Annual Report 1986, 1992, and data presented in Tables 8 and 12

Profitability and Performance

Return on Revenue, which measures profit as a percentage of revenue, generally improved with certain year on year fluctuations up to 1989. After 1989 each of the last three years to 1992 recorded a decline over the previous year. This means that over the final Labor years operating expenses increased at a faster rate than revenue and consequently reduced profitability. For the three years to 1992 expenses increased by 40 percent while revenue increased by 36.7 percent. The rate of revenue growth from electricity slowed over the final Labor years, predominantly due to a slowing growth of electricity sales. Revenue from 'other' sources disguised this slowing of revenue from electricity in the final two years. Importantly, finance charges were a decreasing proportion of total expenses over the final years.

Another measure of Return on Revenue considers earnings before interest and tax (EBIT) as a percentage of revenue. This ratio demonstrates for the SECV the powerful impact of finance expense on financial performance. For 1991/92 net profit as a percentage of revenue was 4.7 percent, if finance charges are added back to net profit to produce an EBIT for that year, the ratio of EBIT to revenue is 33.8 percent. SECV return on revenue as measured by its EBIT rose over the middle Labor years when revenue growth was relatively strong. The ratio fell back in the final years with the slowing of revenue growth from electricity. While asset sales contributed to revenue in the last two years, there was an offsetting expense in the written down value of assets sold which eliminated the impact of that source of revenue on this measure of return on revenue.

The return on assets ratio considers the relationship between total assets and EBIT, often called the 'basic earning power ratio' (Brigham and Weston 1987, 249). It provides a guide to how well management is using the assets at its disposal. The basic earning power of the SECV started at 8.2 percent in 1982 and by 1990 this had improved to 11.8 percent. Again though, 1990 proved to be the peak of performance and the ratio had dropped back to 9.7 percent by 1992, as growth in

electricity sales levelled out. Return on assets divulges steady progress over the period, but not what would be expected with a 50 percent increase in electricity sold; the impact of tariff constraint is quite profound on such a measure.

Return on equity, which relates net profit to equity was quite erratic over the period. While equity increased dramatically from \$230m in 1982 to \$2117m in 1992, net profit was relatively more volatile though it was quite steady from 1989 to 1992. In the last two years under consideration, 1991 and 1992, this ratio fell away from 15.1 percent for 1990 to 7.4 percent due to an increase in fixed assets and the SECV slowing growth in liabilities which resulted in a doubling of equity.

Ratios such as return on assets and return on equity, are to an extent distorted because of the inherent undervaluation of assets due to the use of historical cost valuation. This asset undervaluation in turn undervalues equity and causes an overstatement of return on equity. This distortion can be overcome by the employment of a measure called the Real Rate of Return, which calculates the rate of return on the current cost value of assets employed. It expresses operating performance as the percentage return on the current cost value of assets excluding non-productive assets under construction. The return on such assets is after depreciation expense but before financial charges.

Table 14 shows that the real rate of return for the SECV improved over the period. While the final year's result was exaggerated by a \$2.4 billion writedown in 'real' assets (SECAR 1993, 25), this still permits the conclusion that operating performance improved steadily. Further, with tariff increases significantly below the CPI as an additional constraint on revenue growth, it follows that this measure of operating performance could have improved considerably over the period, simply by increasing tariffs. An increase in the real rate of return in concert with constrained revenue points to a real improvement in operating performance. In the SECV case this was due to labour and associated expenses diminishing as a percentage of revenue as consumption growth eroded excess capacity after the mid 1980s.

Table 14 – Real Rate of Return on Assets SECV, 1982/83–1991/92

Year Ended 30 June	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992
Percentage	3.8	4.8	3.3	4.6	6.3	5.5	5.2	5.4	5.7	8.5

Source: EBRC (1990), SECV Annual Report 1992

Financial Health

From Table 13 one gearing measure considers the relationship between total liabilities and total assets; the lower the ratio the better. The ratio of total assets to total liabilities remained relatively steady from 1982 to 1987 and started to improve in 1988, with the most significant fall for the period occurring in 1991, which was repeated in 1992.

Over the period, total liabilities, as a proportion of total assets, declined; if the SECV had been 'wound up' there would have been more surplus funds at the end of the period than at the start. The other gearing measure concerns total liabilities and equity. In this case there was a dramatic improvement over the period. In 1982 total liabilities were 16.7 times greater than equity; this rose to nearly 25 times greater by 1986, yet by 1992 this had been reduced to 4.4 times, an improvement due to holding liabilities growth at a lower rate than asset growth after 1986.

A related measure to gearing is interest coverage, which matches earnings before interest and tax to the annual interest payment. For the SECV this ratio is really the finance charge coverage though it should be noted that capitalised interest is not included in the denominator. In this case steady performance was evident over the period, except for 1986, which again was the worst of the Labor years. In 1986 earnings before interest and tax only covered 106 percent of finance charges; by 1992 this had improved to 116 percent, performance was steady over the last four years. The principal reason for the steady position was the impact of the SECV holding debt, and hence finance expense, together with a steady net profit.

So far as financial health was concerned, 1986 was the worst year for the total period. From that year improvement was steady, with total liabilities and their concomitant finance expense remaining a very significant but declining financial management issue. It is also important to note, when considering liquidity and financial health, that the SECV was to a large extent a monopoly and consequently the great majority of cash flows were secure. Tight liquidity, while it may have been costly, was not a critical exposure as cash flows were guaranteed by market position.

Dividends

The final group of ratios is concerned with dividends. For the relationship between dividends and equity, the Dividends Returns Ratio, the period 1982 to 1992 was one of significant deterioration. This was not due to a reduction in dividends paid, which in fact almost quadrupled over the period, but to the nine-fold increase in equity over the same time. However, it is important to note that equity is the balancing item between liabilities and assets in the balance sheet and that equity, which was 6 percent of total liabilities and equity in 1982 had grown to 18 percent by 1992. Consequently the deterioration in this ratio was actually due to an improved SECV financial position.

Of much greater relevance in the public sector are measures of the capability of the organisation to meet its dividend requirements. This is measured by the ratios which relate dividends to net profit; 1986 and 1987 were the worst years for this measure. In 1986 net profit met only 51 percent of the dividend payment. By 1990 this had increased to 131 percent coverage, though it is noteworthy that 1991 and 1992 saw a further deterioration due to demands by the Government for a higher dividend return. Between 1991 and 1992 net profit increased slightly from \$152 million to \$156 million, while dividend requirements were increased from \$140 million to \$210 million, a Government policy position that was not sustainable in the long term.

Outcomes of Financial Reports Analysis and Ratio Analysis

The ratio analysis and general financial statement analysis has revealed a steady improvement in financial performance and financial position over the period, with 1985-1988, the time of commercialisation, the low point of the Labor years. Considerable foreign exchange losses, significantly reduced net profit and dramatically increased finance charges characterised those middle Labor years. By 1990 profit had recovered though finance charges were the highest of the period in nominal terms. Under corporatisation, the final years of Labor did not see profit improvement continue, largely due to a slowing in the growth of revenue from electricity sales. Significantly, though finance expense remained a major contributor to total expenses, it declined in the last two years. However, the most profound trends for the period were the increase in debt and the level and timing of investment in fixed assets for less than proportional operating benefit. Other important issues were the extent of the PAD, the growth in equity and fixed assets, the impact on the 'bottom line' of holding average tariff increases to two thirds of the CPI and the impact on sales and revenue of the Alcoa project. However, the analysis draws no conclusions regarding a causal relationship between managerialism, commercialisation and corporatisation and financial performance. That is the subject matter of later chapters.

Importantly, for analysis in later chapters it is not appropriate to employ a counterfactual hypothesis and simply remove the costs of over capacity, and suggest that this could have been translated into an improved 'bottom line' for the ten years of Labor. It is possible that such cost savings may have been used by the Government to further mitigate tariff increases or increase the PAD. Equally, in the absence of excess capacity and concomitant debt, and with a different tariff policy, the potential existed for the SECV to be in a fundamentally improved financial position in 1992.

Capital Expenditure and Debt

This chapter's financial overview and ratio analysis, and the earlier developed cost of excess capacity pointed to the fundamental importance of capital expenditure and debt.

The SECV in 1982 had net fixed assets valued at \$3667 million; by 1992 this had increased to \$10,219 million. This raises questions about the methods employed to finance capital investment and also about other financing options, which were readily available, but were not employed. At the broadest level there are two sources of funds, internal and external. Each of these can be sub-divided into further discrete methods of financing though external sources offer far greater variety and possibilities for innovative approaches

Internal Funding Sources

The extent of internal funding available to the SECV was a function of organisational performance and a range of key decisions by the organisation and the Labor Government. Such decisions and factors influencing performance included tariffs, capital investment, PAD, community service obligations, energy conservation requirements, debt servicing obligations and costs of production. All had an impact on the operating result of the organisation or on how its profit was distributed. This chapter has argued that different decisions could have resulted in more internal funds being available for capital expenditure.

The SECV use of retained earnings as an internal funding source for financing was not significant when compared with the use of external funds, retained earnings only exceeding \$100 million twice in the Labor years. Low levels of retained earnings were due to a high proportion of profit being directed to the PAD. On several occasions the Government required a PAD greater than net profit. When looking at the 1980s, the EBRC observed, 'throughout the whole decade, public authority dividends have substantially reduced the capacity of the SECV to fund its capital expenditure internally' (EBRC 1990, 65). Further, as outlined earlier, the PAD was higher in the last years of Labor than over the period referred to by the EBRC; consequently, an observation on the impact of the PAD would have been even more pointed in 1992 than was the case in 1990. Adequate funds were generated by the SECV operating surplus for significant investment in new capital projects but these were largely directed to the

PAD. Further, funds from 'other' sources in 1991 and 1992, a total of \$859 million including the sale of assets, were not used to fund capital expenditure.

The principal source of internal funds for capital expenditure was depreciation and while this was a large and growing contribution, it was relatively insignificant when compared with external funding sources. Table 8 shows SECV depreciation expense over the period 1981 to 1992 increased from \$117 million to \$479 million. It was only in later years, when depreciation rose in line with asset growth and the levels of capital expenditure levelled out, that internal funds represented a more significant funding source. The level of available internal funds is calculated as 'net profits plus depreciation minus dividends (and other relevant appropriations)' (EBRC 1990, 65). As most SECV profit was paid out in PAD, internal funding approximated depreciation for the period (EBRC 1990, 65).

Finally, it is important to recognise that, from a Government policy perspective, debt was initially an attractive option as it permitted a tariff regime that could not have been sustained if capital expansion was to be funded by operating profit. Labor had a strong preference for debt over equity. The SECV reported in 1983 that the Government was concerned to ensure that GBEs recognised the 'high cost of equity relative to debt, (and that the Government) will not allow the build up of equity' (SECAR 1983, 5).

Alternatively, a more debt averse Labor Government, may have reacted to the inevitable upward pressure on tariffs of funding capital expansion from profits by looking to the SECV to achieve productive efficiency improvements, or it may have looked at capital expansion plans differently.

External Funding

There are two broad external funding sources, equity and debt. While the former is a most interesting concept for public utilities and raises the issues of corporatisation and privatisation, this was not a serious Victorian Government consideration in the 1980s. Debt was Labor's preferred funding source, particularly in the early 1980s, though high

public sector debt was to become a significant issue for all Australian Governments by the end of the decade.

This thesis will argue in subsequent chapters that there were four key influences that resulted in 'excessive' SECV debt levels over the 1980s. These were Government tariff and PAD policy, a forecast lack of generating capacity leading to a requirement for funds to finance capital expansion, a Labor Government keen to see SECV investment in the Latrobe Valley and finally for SECV capital investment to be funded by debt.

However, such a combination of influences does not necessarily lead to 'excessive' debt. That description can only be attached to debt that is inappropriate or imprudent. The absolute extent of debt is neither good nor bad intrinsically; a judgement can only be made after an evaluation of the costs and benefits derived from the debt. In the case of the SECV, it was concluded amongst many, by the IAC (1989), the IC (1991), PBRC (1992) and the EBRC (1990), that SECV debt was too high, it was inappropriate in that it was used to fund unnecessary capital expansion, and it was, by definition, excessive.

The 1990 EBRC report contained detailed consideration of debt and the SECV over the years 1980/81 to 1987/88. This was a particularly relevant time for this study, as it was during this period that the SECV reported a debt increase of \$ 4.6 billion, from \$2.7 billion to \$7.3 billion (EBRC 1990, 383). Interestingly, the consultants assisting the EBRC held the view that accounts payable should have been added to debt, and accounts receivable added to assets, so far as they related to hedging transactions, in order to more accurately report total indebtedness. The result of this adjustment was to arrive at a total debt increase of \$6700 million from \$2.7 billion to \$9.4 billion over the period 1980 to 1988 (EBRC 1990, 386). Irrespective of the measure of debt, the relationship of debt to total assets varied over the period from 0.85 to 0.82 using SECV reported results, and from 0.87 to 0.85 using the EBRC adjusted debt level (EBRC 1990, 386). These two measures are not materially different, and significantly, reinforce that SECV indebtedness, whilst large in absolute terms, was similar but

slightly improved in its relationship to total assets over the period; debt was used to invest in assets.

Table 15 shows that the early Labor years were when loan liability and interest grew fastest. One of the defining features of the 1980s was unusually high interest rates. For a public body used to funding expansion by debt, the cost of money in the 1980s was quite different from any previous decade. There is no evidence from the data that the Government or SECV management modified financing policy directions to take account of this change in SECV operating environment. The use of debt was steeped in the past and in low interest rates, and Labor came into the 1980s with a strong debt over equity preference. On the basis of financial data, Labor and the SECV were not persuaded to a different course by high interest rates.

Table 15 – SECV Finance Expenses and Loan Liability 1982-1992 Nominal Dollars

Year Ended 30 June	Finance Expense \$m	Capitalised Finance Expense \$m	Total Finance Expense ¹ \$m	Loans as at 30 June ² \$m	Total Finance Expenses as a Percent of Loans
1982	271	113	384	3420	11.2
1983	311	212	523	4478	11.7
1984	359	266	625	5096	12.3
1985	498	273	771	6062	12.7
1986	605	303	908	6736	13.5
1987	738	313	1051	7087	14.8
1988	826	212	1038	7256	14.3
1989	895	155	1050	7439	14.1
1990	1026	105	1131	8065	14.0
1991	957	166	1123	8148	13.8
1992	960	188	1148	8385	13.7

¹ Includes Amortised Foreign Exchange Losses and Financing Expenses

² Includes Current and Non-Current Loans and Excludes Hedging Transactions

Source: For 1982-1988 EBRC (1990, 385); For 1989-1992 SECV Annual Report 1990, 1993.

It can be argued that the issue of over capacity would have had significantly less political consequence, were it not funded by debt, and in turn debt would have been less of an issue, if accompanied by lower interest rates. Later chapters will show excess capacity was really only attacked as a consequence of criticism stimulated by debt and interest expense levels.

In a commentary, which draws together many of the issues surrounding the use of debt to fund excess capacity, the EBRC, after acknowledging the difficulty to plan generating capacity, and the intrinsic problems of forecasting the future, stated:

There is considerable community concern that one of the reasons why overcapacity was such a common experience in the Australian electricity industry in the late 1980s is the enthusiasm of engineers for large-scale construction work, and that excessively optimistic demand forecasting in the past partly reflected the 'appraisal optimism' of organisations which really wanted to get on with the job of power station construction without due caution about timing and demand (EBRC 1990, 76).

The EBRC did not acknowledge that the issue of debt could have been mitigated by a tariff regime leading to higher profit and consequently the opportunity to fund expansion through equity. While not reflective of an improvement in productive efficiency, such a policy would have certainly improved the SECV 'bottom line'.

SECV Performance in an Australian Context

It is illuminating to put the SECV into a national context when considering performance. This is done by first looking at financial performance ratios and general measures of Australian electricity performance, and then at a broader Australian context.

The Australian Electricity Industry

In July 1991 a Special Premiers Conference established a Steering Committee on National Performance Monitoring of Government Trading Enterprises (SCNPM). The

second report of the Committee was released in June 1994 and presented indicators of efficiency, effectiveness and service quality for a range of GBEs for the period 1987/88 to 1992/93. Also included in the SCNPM report was a comprehensive comparative review of fifteen electricity industry organisations across Australia. While the SCNMP acknowledged the obvious methodological problem of comparing organisations with differing mixes of transmission, distribution and generation activities (SCNMP 1994, 18), the report presented a most useful guide to the place of the SECV in an Australian electricity industry context.

While the SCNMP did not directly compare the performance of electricity GBEs, Table 16 has been constructed from the separate financial ratios calculated by it for eight of the fifteen bodies investigated, each State is represented in the table. There are minor variations in these ratios in the case of the SECV compared with those presented earlier in this chapter, this is due to the use of slightly different ratio definitions by the SCNMP.

There are three organisations from New South Wales in Table 16 - Pacific Power, Prospect Electricity and Sydney Electricity, which together cover the three functions of generation, bulk transmission and retail distribution. Those three functions are integrated in the representatives from other States, with the exception of Queensland, where the Queensland Electricity Commission (QEC) generated and transmitted, while seven Boards distributed electricity. Financial data in a form to permit comparisons was not available for these Boards. The closest 'apples with apples' organisational comparison for the SECV are the other vertically integrated bodies: the State Energy Commission of Western Australia, the Electricity Trust of South Australia (SAET) and the Hydro-Electric Commission of Tasmania. In each of these cases though there are fundamental differences such as area serviced, fuel type and generation methods which constrain direct comparison without further analysis.

Table 16 – Performance Ratios (Return on Assets and Operational Performance)
SECV and Various Electricity Bodies, 1987/88 to 1991/92

		1987/88	1988/89	1989/90	1990/91	1991/92
SECV Return on Assets	¹ (ROA)	11.5	11.8	12.4	10.8	10.4
Operational Performance	² (OP)	11.4	11.8	12.2	10.8	10.2
Pacific Power	(ROA)	7.3	9.0	9.9	11.3	13.3
	(OP)	8.8	9.0	9.5	10.7	12.4
Prospect Electricity	(ROA)	7.2	9.8	14.2	13.5	-0.3
	(OP)	5.9	9.0	11.8	13.3	14.2
Sydney Electricity	(ROA)	7.9	14.1	14.2	14.6	7.1
	(OP)	6.5	15.6	15.4	14.5	6.9
QEC	(ROA)	12.5	12.4	14.2	14.5	14.8
	(OP)	13.5	13.0	14.7	14.7	15.4
SA Electricity Trust	(ROA)	10.4	8.3	9.4	8.0	7.9
	(OP)	9.8	6.8	9.2	6.8	5.5
WA Energy Commission	(ROA)	10.3	10.1	12.2	11.8	12.5
	(OP)	10.2	10.3	12.4	11.9	12.6
Hydro-Electric Commission (TAS)	(ROA)	9.1	9.9	9.8	8.9	10.9
	(OP)	9.3	10.1	9.7	9.0	11.6

1 ROA – Earnings Before Interest and Tax/Average Total Assets

2 OP – Revenue from Operations – Operating Expenses/Average Total Assets –
Average Financial Assets

Source: Compiled from SCNPMP, 1994

From Table 16 return on assets for the SECV remained relatively stable over the period while in the majority of other cases there was an improvement with the notable exceptions of Prospect Electricity and Sydney Electricity. Operational performance of the SECV tapered off in the last two years after three years of steady improvement, apart from SAET and Sydney Electricity this was not the case elsewhere.

While the use of measures such as return on assets and operational performance must be treated with caution, a tentative conclusion is that the SECV was not an outstanding comparative performer over the five years to 1992, and while it improved productivity and operational efficiency, so did others in the electricity industry. Consequently, calls for fundamental structural change in the SECV in order to further improve performance could not be countered by evidence that it was outperforming the electricity industry.

On balance, based on the two financial ratios, the SECV comparative performance could best be described as moderate over the last five years of Labor. This period, from 1987 to 1992, embraced commercialisation and corporatisation.

The SCNMP also produced a number of non-financial performance measures which, on balance, reinforced the trends from the financial ratio analysis. Again caution is important when using such measures as a differing range of exogenous factors for each body can affect direct comparisons. Given this proviso, the SCNMP found that 'real labour productivity' for the SECV, measured by real revenue per employee, while significantly improved in absolute terms, was below the industry average for each of the years 1987/88 to 1991/92. Conversely, 'operating sales margin', which measures earnings before interest and tax as a function of total revenue (net of investment income), was higher for the SECV than the industry average in each of the five years (SCNMP 1994, 54). This result can point to superior production performance, it also reinforces the impact on operating results of high interest expense. Finally, real SECV electricity tariffs were significantly below the industry average in all years other than 1987/88 when they were roughly the same. Over the four years 1988/89 to 1991/92 the real industry average tariff fell, but not as much as the real SECV average (SCNMP 1994, 54). This relatively low tariff reinforces the argument of the capability of the SECV to raise tariffs, and indicates that the superior SECV operating sales margin was not due to revenue increases via price increases above the industry average.

In a commentary on general performance for the period 1980 to 1990, but one which aptly sums up the SECV in an electricity industry context under Labor, the Victorian Commission of Audit, appointed by the newly elected Liberal National Government, reported in May 1993:

Total factor productivity (TFP), the best available measure of overall productivity, increased by 50% between 1980/81 and 1989/90. Nevertheless, in 1990 the SECV's TFP was assessed as 17% lower than Queensland and 31% lower than privately owned US utilities (VCA 1993, 323).

The SECV in a Broader Australian Context

When considering the *prima facie* modest productivity gains by the SECV under Labor it is revealing to put this into the context of productivity in Australia generally over the period. During most of the 1980s Australian labour productivity growth was unusually slow (Lowe 1995, 1). Between 1983 and 1991 annual increases in output per hour worked in the non-farm sector were about half that of the period 1978 to 1982 (Lowe 1995, 1).

The industry group that recorded the highest percentage annual increase in labour productivity in Australia over 1983 to 1991 was 'utilities', of which electricity was part. Filmer and Dao (1994) partly attribute superior productivity improvement in the electricity supply industry over the nine years to 1991 to winding back significant levels of excess capacity. However, utilities produced the greatest productivity gains over the 1980s and within this grouping electricity supply was a superior performer. The finding that SECV performance was modest under Labor should be considered in this context

Similarly, the SCNMP found for electricity GBEs that, over a six year period to 1993, 'improvement in labour productivity' had 'matched and exceeded the overall average for all GBEs' (SCNMP 1994, 18). Other GBEs covered by the report were gas, water, sewerage and drainage, urban transport railways, ports and 'other Commonwealth' which included Australia Post and Telecom Australia.

In the six years to 1992/93 Australian electricity industry GBE gearing levels fell as did real debt levels. During this period real electricity prices had stabilised at lower levels after sharp falls in the late 1980s and some GBEs had commenced a reduction of cross subsidies in prices with particular emphasis on those provided by commercial customers to domestic consumers (SCNMP 1994). There is also some evidence that in the six years to 1992/93 real revenue per electricity industry GBE employee doubled though such measures require cautious treatment as the extent of structural change, particularly contracting out, can distort such longitudinal comparisons (SCNMP 1994, 20).

Conversely, the IC (1991), in contrast to the SCNMP (1994), Lowe (1995) and Filmer and Dao (1994), was highly critical of the efficiency of the Australian electricity supply industry. The IC (1991b, 50) estimated that, if the electricity supply industry productive efficiency was at international best practice levels and cross subsidies were eliminated, Australian national output could increase by \$2.2 billion annually. Interestingly the IAC had estimated only two years earlier that 'economy wide gains of around \$1 billion annually could be achieved with a more efficient electricity industry' (IAC 1989, ix).

The IAC, in that earlier report also found inefficiencies associated with both the pricing and production of electricity (IAC 1989, ix). It identified problems to include excess capacity, over-manning, cross subsidies in tariffs and revenues not recovering economic costs. The IAC advanced the view that 'sustained improvements would be likely with greater competition in the supply of electricity' (IAC 1989, x). The critical issue was, however, that the IAC (1989) and the IC (1991) did not see the efficiency and productivity gains of the 1980s as good enough. The IC was strident in its view that Australia and the electricity industry would benefit from corporatisation, a view shared by the Victorian Labor Government by the 1990s.

Conclusion

This chapter has considered a range of SECV operational and financial data and presented trends in that data for the 1980s and early 1990s. Surprisingly, given the rhetoric of the incoming Labor Government and the national and international force of public choice and principal/agent devotees, the data analysis points to an SECV which seemed to progress steadily through the period 1982 to 1992. The ten years saw a steady growth in output and revenue, and by the 1990s an improvement in financial position with high but constrained debt levels, and high asset levels. So far as bottom line measures are concerned, the SECV's performance improved and in some instances that improvement was significant. This was particularly so with labour productivity increased by some 80 percent, RPM reduced to 29 percent from 43 percent, improved total factor productivity and an increased real rate of return.

Importantly, the analysis suggests that for the SECV there was still considerable scope for further gains after 1992 as excess capacity was further eroded and the effects of the redundancy program were translated into operating performance.

The other important feature the chapter highlighted was the interdependence of policy and operational decisions taken over the period and the impact on the SECV bottom line of this. Decisions on debt over equity, tariffs, PAD, Alcoa, generating capacity and control of operating costs contributed to the performance and financial position of the SECV, and will be explored further in later chapters. Further, while it may be argued that Loy Yang A construction could not be delayed, the 1985 decision to proceed on schedule with Loy Yang B becomes even more puzzling when considered in the context of considerable excess capacity presented in this chapter. It is clear that the decision to proceed on schedule with Loy Yang B could have been deferred without jeopardising supply.

Later chapters respectively consider the impact of managerialism, commercialisation and corporatisation and increasingly louder calls for fundamental structural reform of the electricity industry and the SECV. These various influences, taken together with the management of a major redundancy program in the early 1990s, represented a potentially turbulent internal and external operating environment for a bureaucratic/mechanistic organisation with a strong patriarchal culture. This chapter has drawn on fundamental organisational data to show that the themes of managerialism, commercialisation and corporatisation were not manifest in discernable 'bottom line' performance improvement, though no causal relationship is inferred. The SECV under Labor did move steadily forward, with generally improved performance and productivity, and was in a stronger financial position at the end of the period than the start. However, this level of performance was broadly in line with trends that existed prior to the Labor Government. Moreover, the SECV's performance was unremarkable by Australian electricity industry standards.

This chapter has shown that in the early Labor Government years high debt was accepted, and average tariffs were held below the CPI. Further, Loy Yang A was not

slowed and Loy Yang B was approved to proceed on schedule while excess capacity was at times well in advance of 1000 MW and when plant availability could have been considerably improved. Finally this chapter has also shown that in the face of known overmanning that Labor's early years were inactive on this front. The next chapter looks at the early Labor managerialist years and attempts to explain why such policies and decisions occurred and why obvious cost saving solutions were not addressed.

CHAPTER FIVE

1982 to 1986 - MANAGERIALISM AND CONTROL

Introduction

From 1952 to 1979 Victorian Labor lost all eight Legislative Assembly elections and by 1976 had only 21 of 81 seats in that Lower House. This trend was reversed at the 1979 election where it increased its number of Assembly seats to 32 - a dramatic swing and one which the Liberal Governments of Hamer and Thompson were unable to arrest. In a landslide victory in 1982, Labor swept to power capturing more than fifty percent of votes cast for the Assembly, and increasing its number of seats to 49. This translated into a majority of seventeen seats over the combined Liberal and National parties (Costar and Economou 1992, 248).

The Labor Government had a 'reform' agenda and the SECV was one of its targets. The methods used by the newly elected Labor Government to attempt to direct and control the SECV included many of Corbett's (1992, 235) managerialist 'practices', including corporate planning, program budgeting and performance management. In addition, in 1982 and 1983, in an attempt to change organisational culture and to give effect to its managerialist requirements, Labor changed the composition of the SECV Board, broadened its organisational objectives and introduced an externally appointed general manager. When considered in conjunction with the range of issues facing SECV management identified in earlier chapters, these changes represented a potentially turbulent time for a long-standing bureaucratic and mechanistic organisation.

This chapter reviews SECV performance in operational management and corporate planning and decision making under the critical first four years of the Labor Government's managerialist regime, which occurred from 1982 to 1986. It investigates the methods of management employed, and tests these against the theoretical

expectations of management behaviour for the bureaucratic/mechanistic SECV. Further, it considers key outcomes identified in earlier chapters and seeks to explain which of these were predominantly a function of SECV management and which arose from influences or 'controls' exercised by the State Government.

This chapter argues that by 1986 the SECV had accommodated the Labor Government's managerialist requirements in a largely unchanged bureaucratic framework. It also argues that the Government and the SECV were jointly responsible for capital investment and financing decisions that were to plague both for the remaining years of Labor Government. However, while little appeared to change under managerialism, by 1986 SECV management's strong commercialisation rhetoric, together with important instances of consultation and collaboration with staff, pointed to a new, less bureaucratic, future and changed methods of operation.

Managerialism and Labor

Labor imposed a number of managerialist requirements in conjunction with legislative change to attempt to reform and control the SECV. Many of the changes introduced by the Labor Government were designed to increase the SECV's accountability to Parliament and the community. At the same time as Labor sought to change the SECV it introduced program budgeting to the public sector. Program budgeting in many ways epitomised the Labor Government's managerialist approach. What then were the fundamental elements of program budgeting?

Program Budgeting

In late 1983 the then Treasurer, Rob Jolly, released a restatement of the 1983/84 State Budget in program budgeting form. In announcing the full implementation of program budgeting, he cited the following virtues:

The clarity and detail ...allows for greater accountability to the Parliament and the people ... Some of the performance indicators are ...at an early development stage and will be refined further...importantly, program

budgeting is an improved management system. Managers within departments are required to arrange Government business with far greater attention to outputs (Jolly 1983).

Though Jolly may not have had managerialism *per se* in mind, his sentiments partially align with Corbett's (1992) definition of managerialism presented in Chapter 2.

In 1982 the Department of Management and Budget (DMB) issued to all Victorian Government departments a 15-page instruction document for the establishment of organisational program structures. This document described program budgeting as 'integral to any improvement' in financial and economic management of the State (DMB 1982a, 1). Historically, the Victorian public sector had budgeted on a functional basis where budgets were aligned with organisational structure. Under this system it was difficult to know what budgets aimed to achieve. In contrast, program budgeting aimed to allocate resources to programs of activities and to evaluate performance according to the achievement of program objectives. This required a program budget structure for each organisation with all activities classified into a logical hierarchy. This hierarchy led to 'service oriented program structures rather than functional structures' (DMB 1982a, 3). The result was that a program budget need not align with organisational structure but could embrace elements of a number of functional areas, since 'programs' could range across these.

The DMB timetable aimed at full implementation of the new system to occur in time for the 1984/85 budget allocation to be determined on a program basis. The 1983/84 financial year was to be used to define program objectives, develop program structures and identify performance evaluation criteria.

Each program of activities was to have a description of the purpose of the program, an explanation of the need and demand for the program, and a statement of 'program objectives'. Together these elements were to be capable of measurement against an 'assessment criteria' which set out indicators for the evaluation of performance (DMB 1983a, 20). Such requirements align with Corbett's view of managerialism, central to which are program budgeting, performance indicators and management by

objectives (1992, 235). The concept of program budgeting required critical self-analysis at an organisational level when programs were established, and at an operational level when sub-programs, components and activities designed to accomplish those programs were developed.

The final elements in the program budgeting hierarchy were designed to increase accountability through the development and measurement of quantifiable performance indicators. Moreover, program budgeting began with the fundamentals of corporate planning, and in particular the 'present position analysis' that is necessary for the development of corporate plans according to writers such as Argenti (1980). It was a methodology that asked questions about the need for an organisation or elements of that organisation to exist, and the appropriateness of operational strategies for the achievement of objectives, based on established needs.

While DMB described program budgeting as 'integral to any improvement' in financial and economic management of the state, it was in effect 'program management'. Financial and manpower requirements were an important aspect of the concept which was a tool employed to allocate resources between competing requests for funds. However, the principal focus of program budgeting was the introduction of new management techniques to the public sector in corporate and strategic planning: actual budgeting was the more mechanical aspect of the total program of change. A newsletter, issued in September 1983 by the Budget Development Division of DMB, supports this argument. That newsletter stated that program budgeting 'emphasises planning, the relationship of objectives to resource allocation and the review of results feeding back into the budget process' (DMB 1983c, 2).

Managerialism and Control

While program budgeting was being introduced to the public sector generally, its managerialist thrust was specifically embodied in legislation introduced by the new Government to give formal effect to the control of the SECV Labor proposed in Opposition. The *State Electricity Commission (Amendment) Act 1982* came into effect

in January 1983 when it amended the principal SECV legislation (SECACT). The Department of Minerals and Energy in its 1984 Annual Report said the new SECACT made 'the Commission more representative of community interest, restructured its top management and increased the accountability of the Commission to the Government' (DMEAR 1984, 2). According to the SECV, its rationale was to 'ensure firm control over the future planning and management of the State's energy resources' (SECAR 1983, 2).

To assist with the development of this legislation, the Government had engaged consultants to work with the Public Service Board of Victoria to review the existing SECV charter and recommend a management structure to achieve the SECV's objectives. Significantly, while the Chairman of the SECV took part in the process, David White, the Minister for Minerals and Energy appointed his Departmental Secretary, Dr Bill Russell, to supervise the review (SECAR 1983, 2).

The review proposed 'measures designed to develop a stronger link between the Government and the Commission to ensure that the Commission is able to implement Government policy as determined by the Minister' (SECAR 1983, 2). This forthright objective was the basis of the new SECACT which provided for an increase in the size of the Board from four to seven, separation of the roles of Chairman and General Manager, new objectives for the SECV and a strengthened relationship in financial matters between the Government and the SECV. The SECACT required that the Board include the SECV Chief Executive Officer, the head of the Department of Minerals and Energy, an employee representative, a person with management or financial experience and a person experienced in environmental, welfare or consumer matters. In short, the Labor Government had moved to 'control' the Commission.

The SECACT also prescribed SECV management obligations and accountabilities, and required it to include in its annual report any 'direction' by the Minister, and to conduct an annual general meeting at which 'any person may ask questions of the Commission concerning ... policies and operations' (1983, s9E (1)(b)). Further, the Act authorised the Minister to convene a public meeting at any time to elicit responses to the policies

and operations of the SECV. Finally, it imposed a range of financial reporting and control mechanisms, which included a requirement to submit annual estimates to the Minister for approval and for monies only to be expended in accordance with those estimates, unless otherwise authorised by the Minister.

In addition to these conditions regarding Board membership and reporting mechanisms, the Government extended its formalisation of 'control' through requirements in the SECACT for the SECV to comply with a range of managerialist measures. These included the establishment of objectives for the SECV to operate in accordance with criteria established by the Minister with respect to efficiency, economy, safety and reliability; to use the State's natural resources efficiently; to produce electricity (including production by cogeneration) and to substitute more plentiful or renewable resources for less plentiful resources; to establish a safe and satisfying working environment with conditions of employment consistent with Government policy; to comply with Government environmental policies and give due consideration to environmental factors in the planning, design, construction and operation phases of projects; and to 'implement energy conservation goals consistent with Government policy and operate in accordance with Government economic and social objectives' (SECACT 1983, s12(2)).

While it can be argued that these objectives were more rhetoric than substance, they clearly required a formal SECV commitment to energy conservation and environmental considerations. Further, the managerialist thrust followed as the SECV was required to establish indicators to measure the achievement of each objective and to publish results in its annual report of the extent to which objectives had been met. The SECACT also prescribed the functions of the SECV including a requirement to assist its customers to conserve energy and to facilitate public involvement in its affairs (1983, s12A).

In 1984 the SECV reported that it had commenced the development of a corporate strategy plan, and that the first phase had been completed and comprised the production of a mission statement, corporate objectives, goals and performance measures in line with legislative requirements. The mission statement was quite narrow in scope:

To provide cost-effective energy and services and to act in the best interests of the people of Victoria by being a responsive, adaptive, financially sound and efficient public utility (SECAR 1984, 5).

The SECV claimed the mission statement was the 'foundation of all activities and should provide ...a sense of direction and unity of purpose' (SECAR 1984, 5). However, there was no reference to energy conservation, nor to providing electricity at low prices, nor to embracing the wider economic development role that the Government saw for electricity in Victoria's future. It was a general statement that could have been written under the previous Liberal Government and was not reflective of any of Labor's policy thrusts set out in the SECV's newly legislated organisational objectives, apart from the rather nebulous reference to responsiveness and adaptiveness.

While the mission statement appears to be so vague as to be meaningless, the requirement in the SECACT for the SECV to set targets for performance for each of its broad areas of activity and to annually report actual performance against those targets, was a measure that could have focused attention on Labor's objectives for the SECV. Performance reporting was fundamental to increased accountability under managerialism, and by inference was the tool the Government could use to 'control' the SECV if performance was not satisfactory. This ability to 'control' the SECV through performance reporting was enhanced by a legislative requirement for the Minister to approve targets prior to publication.

The Development of Performance Indicators

The SECV had been involved in developing targets and reporting results in its annual reports before 1982. However, the Labor Government expected public bodies to set output based targets as drivers for increased efficiency and management accountability, and the SECV significantly increased its formal commitment to this philosophy after 1982. In its first full year under Labor, the 1983 SECV Annual Report presented a range of performance indicators in line with statutory requirements (SECAR 1983, 6-9). Those indicators were presented in the form of

graphs with a ten-year history of performance in each case. Ten graphs covered four areas of activity: productivity and safety, customer relations, use of resources and financial management. While this gave the appearance of embracing managerialism, it raised several associated issues. First, the relevance of the performance measure; second, the extent to which targets were challenging; and third, what other performance measures and targets might have been used to assess performance.

In February 1983 DMB issued a comprehensive 68 page program budget system specification (DMB 1983a); this was followed in June of that year with a further 37 pages of program budgeting 'instructions' (DMB 1983b). Both documents were prescriptive and stressed that good performance indicators were to be challenging, unambiguous and capable of measurement. The two documents provided detailed examples and proformas for the development of program structures and advised that the department of Premier and Cabinet would monitor program achievement and efficiency and effectiveness (DMB 1983a, 51).

While the SECV was not in the 'inner' public sector covered by the DMB directives on program budgeting, it seems reasonable to argue that the standards required of 'inner' agencies, so far as reporting performance was concerned, were similar to Government expectations of GBEs such as the SECV. Consequently, an evaluation of SECV performance measures and targets not only provides a guide to performance but, more fundamentally, points to how seriously the SECV took the requirement to report on such matters. How challenging and how relevant were the SECV's published performance measures and targets?

The 1983 SECV Annual Report presented 'performance indicators' on 'manhours' invested per GWh sold, customers per employee, lost time injuries, average electricity selling price, interruptions to supply, public safety, energy supplied from brown coal, internal funding ratio, interest coverage ratio and real rate of return (SECAR 1983, 7-8). However, these 'performance indicators' were largely concerned with productivity measures and presented only half the managerialist

equation, since the results were not compared with targets set at the start of the year. In fact, there is no evidence that such targets had been set.

By 1984 the SECV had established targets for a range of categories concerned with, customers, employees, financial performance, natural resources, the environment, conservation and the community. The SECV reported performance against 45 targets. Many of the targets were an absolute measure that meant little in isolation, as at least two year's data is needed to assess relative performance. Several key targets were described as 'to be developed' (SECAR 1984, 98-100); these included electricity load management, part of the 'customer' category and the total 'environment' category. Further, some targets appeared trivial: for example, the target for improved communication with employees was 'all levels of management to hold meetings with their employees at least four times per annum' (SECAR 1984, 98). This was the kind of action to be expected of a bureaucracy attempting to involve employees in the organisation, but doing it by instruction. Others targets were more compelling, such as keeping electricity price rises below the Melbourne CPI and keeping spending on Loy Yang within precise estimates. On balance the range of measures and targets appeared to contain enough data to broadly assess SECV performance if supplemented with comparative data.

By 1985 performance reporting had improved. The SECV presented performance against targets and importantly established targets for 1985/86 and those to be achieved by 1989/90 (SECAR 1985, 98-100). For 1985/86 a number of performance measures were discontinued and a number created as part of a refinement process. Under seven category headings, 37 target areas were identified; of these thirteen were designated 'not established' or 'not applicable' as this was 'a new performance measure adopted in May 1985' (SECAR 1985, 34). Of the remaining 24 targets, seven related to surveys or other research that had not been conducted in time for the 1985 performance statement, leaving 17 targets for 1984/85 which had a reported performance for that year. Table 17 presents the balance of 17 targets for 1984/85, achievement against those targets and targets for the next financial year. This table shows that the targets were informative of SECV performance and to that extent

relevant, but they were not necessarily challenging. Of these 17 targets for 1985/86 only one third required an improvement over 1984/85 and only one, lost time injury frequency rate, required a significant improvement.

Table 17 - SECV Performance Measures and Targets, 1984/85 to 1985/86

Performance Measure	Targets for 1984/85	Actual for 1984/85 (or) Status as on 30 June 1985	Targets for 1985/86
Annual survey results on level of customer satisfaction with Commission advisory services and the meeting of customer energy needs	Improving results from annual survey results	72% satisfied (64% in 1983/84)	Survey results to show an improvement over 1984/85
Annual survey results on: - level of satisfaction with opportunities for participation - overall impressions of Commission in meetings its statutory responsibilities	Conduct survey	<ul style="list-style-type: none"> • 19% satisfied with opportunities for participation (19% in 1983/84) • 67% favourably impressed (60% in 1983/84) 	Conduct survey
Number of referred operating and service complaints (in writing and by phone)	<ul style="list-style-type: none"> • Less than 600 pa (written) • Not established for phone complaints 	494 (written) 241 (phone)	Less than 600 pa (written) Less than 250 pa (phone)
Efficient Energy Intensive Industries attracted to Victoria	Do	Follow-up activities to overseas marketing mission progressing	Follow-up activities to overseas marketing mission
Competitive electricity prices	Industrial and commercial electricity prices – average levels to be in lower half of range for mainland utilities	Industrial and commercial prices are in the lower half of range for mainland states	Industrial and commercial electricity prices to be on average in the lower half of range for mainland utilities
Lost time injury frequency rate	Lost time injuries (LTIs) – 509	772 LTIs 17.2 LTIs/million manhours	Less than 15LTIs /million manhours

Performance Measure	Targets for 1984/85	Actual for 1984/85 (or) Status as on 30 June 1985	Targets for 1985/86
GWh sold per employee	Greater than 0.9 GWh/ employee	0.95 GWh/employee	More than 1.0 GWh/ employee
Percent rise in average electricity prices	Average rise to be less than Melbourne CPI increase	4.4% average price rise announced in July 1984 (6.2% CPI rise in 1984/85 excluding Medicare)	Average percent rise not to exceed projected Melbourne CPI increase for that financial year
Electrical fatalities	Less than 4 per million population per year	3.2 per million population	Less than 4 per million population per year
Interruption index: KVA hours lost/KvA installed	Less than 5 per year	5.1 per year	Less than 5 per year
Fuel consumed (tonnes of Morwell coal equivalent) per MWh generated in brown coal power stations	Less than 1.5 tonnes/MWh	1.38 tonnes/MWh	Less than 1.5 tonnes/ MWh
Loy Yang costs and performance	\$306.3 million – direct capital	Target achieved on capital cost	Costs and operating performance to be within Government targets
Real rate of return	Not established	4.8%	Not less than 4.5%
Level of internal funding	Do	25.2%	Not less than 29.3%
Interest coverage ratio	Do	0.74	Not less than 0.73
Debt/Equity Ratio	Do	68.6%	Not more than 67.5%
Annual capital costs Annual O&M costs	\$989 million \$1600 million	\$925 million \$1543 million	Operate within limits approved by the Minister for Industry, Technology and Resources

Source: SECV Annual Report 1984,1985,1986

By the time of the 1986 Annual Report the SECV had developed a number of the targets that were pending in 1985 and produced a comprehensive range of measures,

targets and actual results. Furthermore, targets included a five-year horizon to 1990/91.

While a number of the five-year targets set in the 1986 Annual Report were quite challenging, this was not the case for the more immediate 1986/87 targets, compared with 1985/86 actuals. For example, interest coverage ratio was 0.72 in 1985/86, the target for 1986/87 being 'not less than 0.76', however the longer term target was 1.1 by 1991/92 (SECAR 1986, 119). Further, while debt equity ratio was 66.9 percent at 30 June 1986, the target for 1986/87 was 'not more than 70.9 percent' while, for the longer term, it was '60 percent by 1991/92'. On the production side, for 1985/86, 88 percent of GWh was generated from coal and hydro, the 1986/87 target was less than this, with a requirement of 'greater than 85 percent'; the longer term and much more challenging target, was 'more than 90 percent by 1990/91' (SECAR 1986, 119). In each case, considerable time was available for the more challenging targets to be achieved as part of a gradual process while in the short term only steady progress was required to meet targets and, of course, long-term targets could be adjusted from time to time.

On balance, the targets established by the SECV during Labor's early managerialist years were readily achievable, consequently, they are of little use in assessing if the SECV was challenged to improve performance. Given that reporting performance against targets was one of the key elements of managerialism and control, it is arguable that, by 1985/86 the SECV had accommodated this requirement without any real organisational impact. Further, as measures and targets were required to be approved by the Minister prior to publication, it follows that the Government was prepared to accept this.

The establishment of comfortable targets persisted to the end of the decade. The EBRC, in a telling criticism of an SECV productivity measure, GWh per employee, which was targeted to increase by 27 percent between 1989/90 and 1992/93 stated:

This is a targeted increase ...which is more than will be delivered simply by the reduction in employment numbers. However since output ... is expected to increase by about three percent per annum over the period, it would appear that this productivity target will be comfortably achieved. More challenging targets, achievable only with some effort, should be prescribed (EBRC1990, 121).

In addition to comfortable targets, while the SECV did adopt program budgeting, it did not do so with alacrity, quietly announcing in 1986:

The 1986/87 budget was prepared on both a program basis and a functional basis. Reporting of actual expenditure against budget on a program basis and will be available in 1986/87 and will enable closer management towards program targets (SECAR 1986, 13).

The SECV could have been readily installed this managerialist 'practice' sooner, if there had been a will to do so.

Equally had Labor wished, it could have pushed its managerialist requirements harder, as Considine argues:

Program budgeting was a costly, compulsive device which had important secondary benefits but did not succeed at its main task of creating greater budget rationality. Corporate planning faded from view within a year of being trumpeted as a new source of comprehensive goal setting. Labor's managerialist phase had been a bold experiment that had lost much of its philosophical impetus by the mid 1980s although many of the trappings, such as program budgets and corporate plans, continued as requirements of the public sector but not as drivers of reform (1992, 196).

The evidence presented on the SECV supports this view so far as the tenets of program budgeting and performance reporting were concerned. The evidence also suggests that Labor's managerialist phase was merely accommodated by a bureaucratic/mechanistic SECV, which focussed on delivering core responsibilities and not taking such 'fads' too seriously.

Organisational Design

The Labor Government's push for program budgeting, performance reporting and corporate planning had the potential to change the shape of the SECV. So too did a review of its organisation conducted by New York based management consultants Cresap, McCormack and Paget (CMP). While the CMP review was commissioned by the SECV, it is noteworthy that the review's results were discussed *inter alia* with White and the Chairman of the Public Service Board before the report to the SECV Chairman was prepared (CMP 1985, 1-2). The CMP review had significant potential for major impact on the shape of the organisation and its methods of management. The study had three purposes: to evaluate the organisation of the SECV, to recommend improvements to the existing organisational arrangements, and to evaluate internal and external resources available to the SECV and suggest how the recommended structure should be staffed to ensure sound future management (CMP 1983, 1-1).

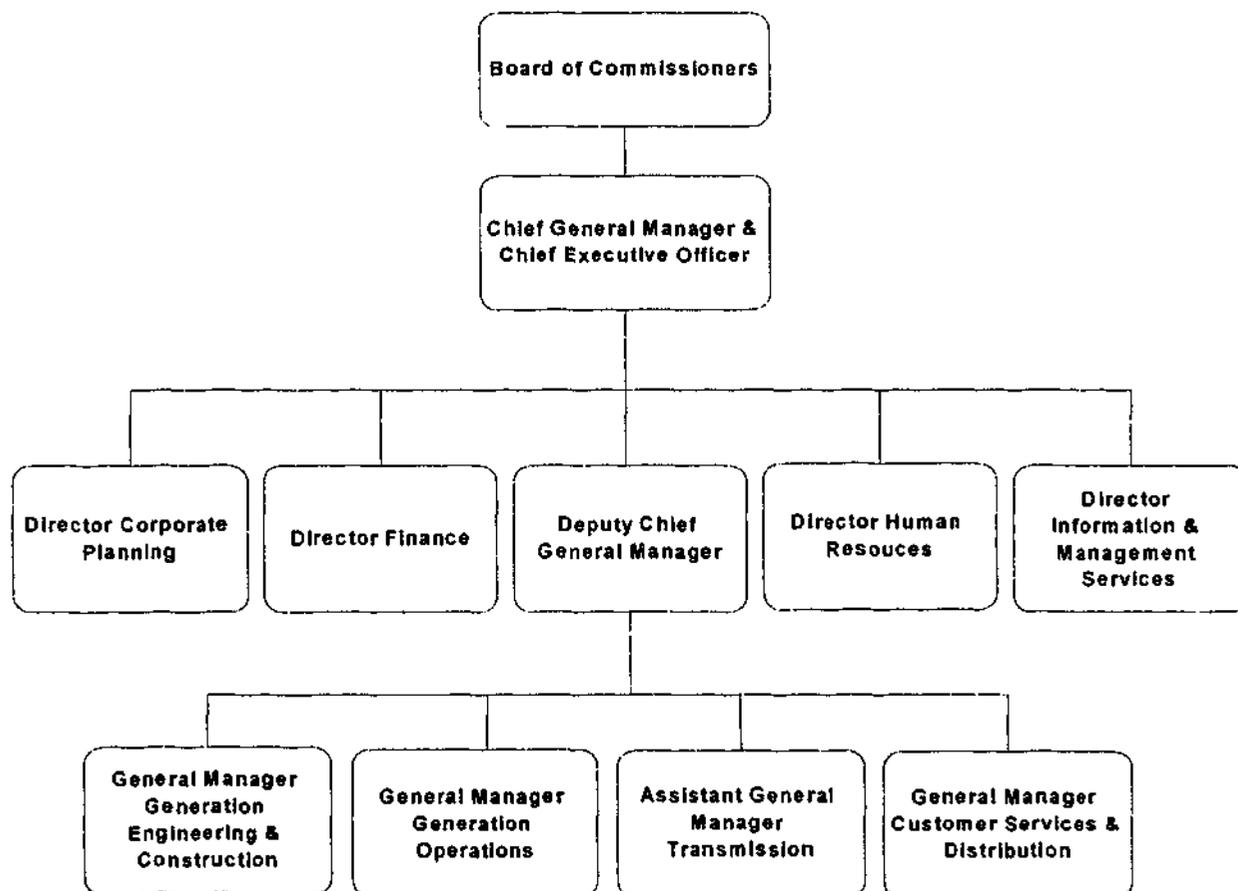
The consultants' recommendations provided for a Chief General Manager and a Deputy Chief General Manager in charge of line functions. Other recommendations were for integrated corporate planning, increased senior management focus on treasury functions, a strengthening of staff functions involved in human resource management and a realignment of line activities. Finally, a focus on major design and construction projects and on the operational performance of power stations was also recommended (CMP 1983, 2).

The CMP report recommended monthly not fortnightly meetings for the newly expanded board for the rather lame reason that more frequent meetings would reduce the capacity to attract 'highly qualified, prospective Commissioners who would likely have many other commitments already' (CMP 1983, 111-3). No other rationale for specifying the frequency of board meetings was provided. The Chief General Manager and the Deputy Chief General Manager, together with the Chairman, Deputy Chairman and Director, Corporate Planning were recommended to form an Executive Committee to 'help develop, review and/or coordinate the SECV's overall business policy for approval by the Board' (CMP 1983, 111-6).

The consultants also recommended that General Management meetings should be held fortnightly to *inter alia* 'improve coordination' in the SECV. These meetings were to be attended by the Chief General Manager, Deputy Chief General Manager, General Managers, Directors and the Assistant General Manager (Transmission). The meetings aimed to ensure the achievement of SECV objectives and goals, which supported the organisational mission. However, the consultants were quick to point out, in the best bureaucratic fashion: 'it should be emphasised that these meetings are not intended to be the vehicle for consensus decision-making, or to relieve individual managers from exercising their "delegated authorities" ' (CMP 1983, 111-7).

CMP also developed an organisation chart to give effect to many of the preceding recommendations. The consultants proposed a functionally based organisation for the SECV as set out in Figure 2:

Figure 2 - Proposed SECV Organisation Chart, 1983



Source : CMP 1983

SECV Commissioner Gibson (1983), in an internal memorandum in May 1983 had also promoted the benefits of grouping like activities functionally into a central unit reporting to the Deputy Chief General Manager. Gibson was commenting on how best to deal with increased public scrutiny and SECV performance in relation to the environment. While the subject matter is considered later in this chapter, the critical factor for organisational design was his view that an Environmental Planning and Management Group would 'clarify responsibilities' and 'improve coordination'. Functional groupings of like activities was an organisational preference and was also politically expedient. As Gibson commented 'it is likely that the group would be regarded favourably by State Government and the general public, as one of the positive steps being undertaken by the SECV to meet its responsibilities in a changing environment' (Gibson 1983, 2).

This commitment to functional grouping was reinforced in June 1983 by the Chief General Manager Kevin Connelly (appointed from within the SECV to succeed Trethowan, who had ceased to be Chief General Manager but had retained the position of Chairman). Connelly wrote to the Chairman expressing concern over a CMP recommendation that the Superannuation Administration unit should be split between the Finance and Human Resources Groups. In a plea for like functions to be grouped together, Connelly submitted that the unit should remain intact 'because all sections ... are interrelated and if split, as recommended by CMP, management of the unit would be very difficult' (Connelly 1983a, nn).

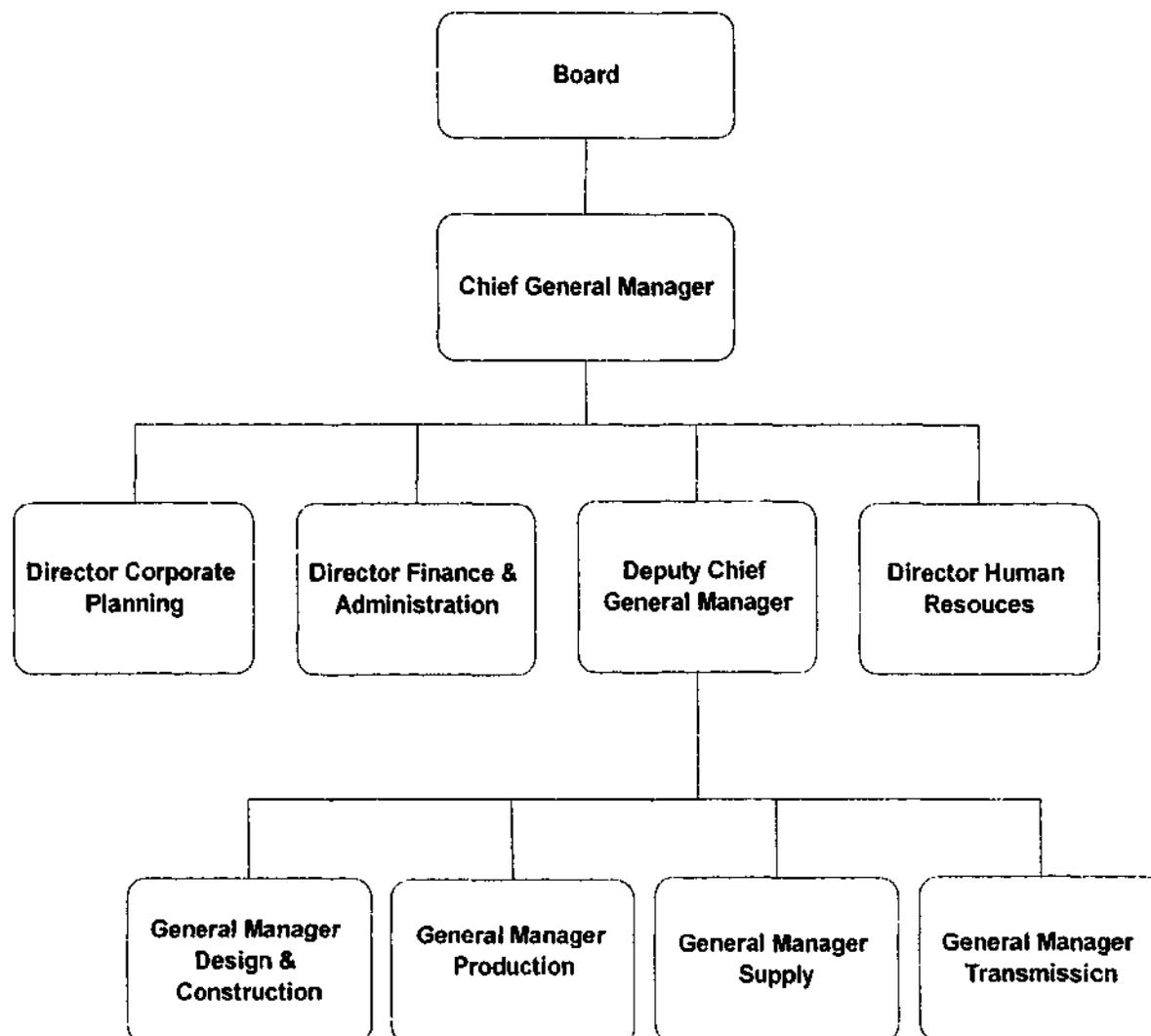
In its 1983 Annual Report, the SECV announced a new organisation structure closely along the lines of the CMP recommendations; it did not include Gibson's proposed environmental group. Apart from some relatively minor reshuffling of responsibilities and variations in titles - notably the SECV decision not to include 'customer services' in a General Manager's title - the new SECV structure was in line with the CMP proposal. Significantly, this structure had the same fundamental, functional and mechanistic design, as the pre-Labor organisation that CMP was engaged to review; albeit with some reordering within those parameters.

The SECV response to the CMP recommendations and changes required by legislation was to increase its functional specialisation and its hierarchical design. It added an extra layer in the hierarchy below the Chief General Manager, for the various operational managers to report to a Deputy Chief General Manager, Connelly did not have a deputy. The new structure included the formation of a specialist Corporate Planning Group responsible for business planning, forecasting and tariffs, projects planning, planning investigations and public relations. As in the past with other centrally located staff functions, the manager responsible for the corporate planning function reported directly to the Chief General Manager.

As had been the case for the previous 60 years, the SECV responded structurally to an increasingly complex environment by perpetuating an increasingly specialised and functional design. This is not to suggest that the corporate planning function was not required, but simply that this requirement was accommodated as had been many earlier requirements, by an extension of the traditional functional, bureaucratic structure. In other words, the SECV increased its bureaucracy.

The new structure was revised slightly in 1984 to remove the position of Director, Administrative Services. Apart from this change the organisation was structured in 1986 along the same lines as in 1983. Figure 3 shows the 1986 SECV organisation chart.

Figure 3 - SECV Organisation Chart, 1986



Source: SECAR 1986

In summary, in the four years following Labor's 1982 election, while the need for a separate corporate planning function had been recognised, the SECV's structure was fundamentally unchanged. CMP proposed a mechanistic and functional approach, the SECV implemented it and the State Government accepted this. Control through structural change presented a chance to change the old SECV attitudes and methods of operation, of which Labor was so critical in Opposition. In not exercising this control, Labor lost a major opportunity.

Appointments to Senior Positions

While structural change can impact on an organisation's culture so can changing the people at the top of organisations. Labor replaced Connelly, who retired in July 1983, with a new Chief General Manager, Jim Smith, recruited from Telecom. White (1996, 4) stressed how 'fortunate' he was to recruit Smith, he also indicated that the SECV had 'future leaders within the ranks' who were not then ready to assume the top position. The 'restructure' (or more accurately the re-ordering and amalgamation of like activities) following the CMP Report in 1983, required a number of senior positions to be reviewed and redefined. The restructure thus presented a further opportunity to recruit new people to the SECV.

In 1983 the SECV reported that as a consequence of the review of senior positions, it had made eight appointments (SECAR 1983, 66). These were to the positions of Deputy Chief General Manager, three Directors and four General Managers; all were internal appointments and six were engineers. Also announced were a further ten senior appointments that had arisen through attrition; again, all were internal appointments and six were engineers.

The SECV preference for internal promotion is exemplified in a memorandum from the Deputy Chief General Manager Clem Joyce to Smith on the position of General Manager, Production:

A Special Appointments Board conducted in-depth interviews of prospective appointees to the position of General Manager, Production. Having regard to the requirements of the position and the assessed capabilities and experience of senior managers, interviews were confined to Mr D. Clark, Manager, Power Generation and Mr J.C. Hutchinson, Manager, Area Administration... the Special Appointments Board recommends... Mr Don Clark (who is) aged 53 years and has 34 years experience with the Commission (Joyce 1983, nn).

Clark, an engineer with 34 years experience, had joined the SECV at the age of 19. Only he and Hutchinson were considered worthy of interview and his success was attributed in part to the lack of capacity and experience of others.

The 1984 Annual Report detailed further organisational changes based on the CMP Report where, of the 20 senior appointments for the year, only one was appointed from outside the SECV and that was to the staff position of Manager, Organisation Services (SECAR 1984, 70-71). The other 19 all held senior positions in the SECV. In 1985 ten senior appointments were announced. Of these, eight were formerly SECV senior managers (SECAR 1985, 45). The other two appointees were external, and were recruited to the positions of Internal Auditor and Treasurer. In 1986 a further 11 senior appointments were announced, two of whom were recruited from outside the SECV to manage Business Planning and Review and Personnel Development.

Of the 56 appointments to senior positions in the SECV from July 1982 to June 1986, only five were from outside the SECV. There were no external appointments to any of the operational areas under the control of the Deputy Chief General Manager. In 1986 the nine most senior SECV managers were the Chief General Manager, the Deputy Chief General Manager, the three Directors and the four general managers. Of the nine all were males, and apart from Smith, all were SECV employees prior to gaining their positions; six had formal engineering qualifications.

Despite this background of retaining long term SECV employees as top managers, the decision to retain Trethowan as Chairman, after splitting the role of Chairman and Chief General Manager and appointing Connelly and then Smith, is puzzling, as White 'didn't have confidence' in Trethowan (1997, 3). White had called for Trethowan 'to be sacked' during the 1982 election campaign, but was forbidden to do so by Cain, who prior to Labor's election, had promised that this would not occur (White 1996, 2). In these circumstances marginalising Trethowan to the position of part-time Chairman was probably as far as White could go.

3

Appointments to senior positions, like the approach to organisation design was predominantly the same in 1986 as it had been in 1982 and for the previous 60 years. Managerialism and Labor's agenda of control and reform, which it brought to office

in 1982, had little effect on SECV structure or senior level recruitment patterns. The one major external appointee, Smith, did however, become very influential in changing the direction of the organisation from the mid 1980s, which, in turn, emphasises the importance of his recruitment.

What then of the approach to management over this period? Is there any evidence to support a diminution of the traditional bureaucratic approach? There is some, but there is much more to support the argument that it too, continued as before.

Methods of Management

Traditional modes of management in the SECV were highly bureaucratic and approximated Weber's ideal type bureaucracy. A fundamental question for this study is to what extent did this change from 1982 under a managerialist Labor Government?

In June 1983 Connolly wrote to the Chairman on engaging consultants to assist with the installation of a salary evaluation system for senior managers. There were then, 231 officers in this 'senior' category, covered by 14 salary steps from \$40,455 to \$72,000 (the position of Deputy Chief General Manager). The evaluation process, which was supported by White, involved consultants Cullen, Egan and Dell working with the Victorian Public Service Board to document jobs, write position descriptions and establish salaries (Connolly 1983b, nn). This structured approach to salary evaluation constituted a bureaucratic/mechanistic methodology for dispensing equitable, objective, position-based salary levels that ignored the particular attributes of individual incumbents. In this system, salary was linked to position attributes, it follows that two incumbents in identical positions received identical salaries irrespective of performance, a characteristic clearly aligned with the description of a 'highly bureaucratic' organisation.

Similarly, the SECV reinforced its commitment to impartiality in decision making and to rules and regulations, when it reported in 1984 on a review of its selection and

appeals process undertaken with assistance from the Victorian Public Service Board. Significantly, recommendations from the review, which were endorsed in principle by the SECV included:

The development and promulgation of a comprehensive set of principles of personnel management; the development of objective, consistent and equitable classification systems and the extension of fair and open competition for advancement and appeal rights to wages employees (SECAR 1984).

This commitment to impartiality was further reinforced when, in July 1985, a new appeals and grievance procedure was introduced to enable 'staff to seek a review of personnel management decisions by an impartial body' (SECAR 1986, 61). This was the commencement of the formalisation of the previous year's recommendations on appeal rights.

In conjunction with the emphasis on impartiality, a continuing commitment to centralist control was also emphasised. An example being the announcement that the Personnel Development and Training Services Division had been re-organised to provide a consultancy service, to 'assist line managers to address specific training and development needs of staff' (SECAR 1986, 61). There was no suggestion that such a fundamental management function could be devolved to line managers.

In contrast, in 1986 the SECV reported that employees would be surveyed to seek their opinions of the organisation and on ways to improve performance. While the survey was very structured, the intention to consult with staff was not a traditional bureaucratic trait. Further, the survey was constructed to assist with devolution and performance measurement, these objectives were a sign of a 'less bureaucratic' and more managerialist SECV. As the SECV reported:

The survey is designed to help line managers develop specific personnel action plans for their own areas. Management performance against these action plans will be assessed during the annual management performance review (SECAR 1986, 13).

The employee survey was a notable digression from the bureaucratic way, as was the announcement that a human resources plan would be available for discussion in September 1986. The plan was proposed to cover 'policies in areas including employee relations, occupational health and safety, redeployment, technological change, training and development and equal employment opportunity' (SECAR 1986, 13). Again, releasing the plan as a discussion document was not in line with traditional SECV practice, or 'top down' instruction, as per Weber's bureaucratic model.

While in many respects the SECV methods of management were initially in line with its pre Labor approach, its relationship with the Minister was not. White was a 'hands on' minister who exercised close 'control' over the SECV; to this end he 'established a formal working relationship' in which he expected to meet 'weekly with the SEC' (White 1996, 2). White's habit was to 'document between 30 and 60 questions on a range of issues' (White 1996, 2). White also advised that in his dealings with SECV management, 'they had a responsibility to provide a response in writing to each of those questions' (White 1997, 3).

White's close control extended beyond strategic matters. He involved himself in issues such as whether or not a retrospective commercial charge should be levied on the proprietor of a boarding house who had historically paid the domestic tariff. White prevailed on the SECV General Manager with responsibility for the area, Chapman, to 'concede and look after her' (1996, 4). White described his intervention as necessary, because of the SECV attitude to customer relations, but conceded 'it was terrible that I should even have had to bother with such a detail' (White 1996, 4). White was seeking to establish a less bureaucratic SECV that was more responsive to its customers; he was seeking a different culture for the organisation.

It follows from this example, and the presumption that there could not reasonably be 30 to 60 strategic issues 'alive' at any one time, that at least some of White's 'questions' related to day-to-day matters. It is therefore argued, that SECV methods

of management were known to the Minister, because of his hands on approach. It is further argued that those methods were acceptable to him, or as was the case with the boarding house proprietor, he would have intervened.

There was no evidence in the early Labor years of fundamental changes in SECV methods of management. However, developments which had the potential to make the SECV less bureaucratic occurred with the introduction of program budgeting, personal action plans for managers, the establishment of organisation performance measures and annual targets, and the formalisation of the corporate planning function. All these developments were directly or indirectly managerialist in nature, but, on balance, such changes did not alter the basic SECV methods of management, which remained steeped in the bureaucratic tradition, though the employee survey was a notable exception. It is argued that a principal reason why methods of management did not markedly change is that, as discussed earlier, many of the above-mentioned 'developments' were not challenging for the organisation. An easily achieved performance measure, supported by a non challenging target, can be met without the need to consider a changed or different management approach.

Preparing For Change

During these early years to 1986, while little appeared to change, Smith was setting the scene, albeit slowly, for a new management approach. In 1985 the SECV announced to staff that it would develop and disseminate a 'Management Approach' to 'assist employees at all levels in the organisation to understand the manner in which the SEC would work' (SECCS 1985, 17). The SECV claimed that the new 'management approach will embrace and build upon that which has emerged over the past two years' (SECCS 1985, 17).

The new approach included an array of less bureaucratic initiatives such as devolution of accountability and responsibility to organisational units; 'decentralisation of functions to line management'; 'devolvement of delegations ... further down the line'; 'reinforcement of business management techniques'; greater

mobility and flexibility of employees and the organisation of the SECV into 'business centres'. It was also announced that Smith was taking personal responsibility for the introduction of the 'new approach' to management (SECCS 1985, 18).

In contrast, the SECV also announced in the best bureaucratic fashion, that 'control systems' would be developed for managers 'to support the decentralisation of functions, accountability and responsibility, and ... to assist line managers and employees to be more effective and efficient' (SECCS 1985, 18); a clear example of central control limiting the extent of devolution. Nevertheless, devolution, decentralisation, flexibility, mobility, and business management were not in line with the traditional SECV.

In addition to this, the SECV also announced that it would undertake an Activities Review. This was driven by Smith and was considered by Gibson (1996, 3) to be a 'terribly important effort in trying to rationalise the operation' of the SECV. In many respects the 1985 Activities Review was similar to the 'present position analysis' at the start of the program budgeting process. The Activities Review was managerialist in nature. The SECV described it as:

An essential early initiative because of the need to analyse what business the SEC is and should be in. The review would carefully identify the core business, support services and new businesses and the functions to which the business centre concept would be applied. The information produced would ... enable subsequent preparation of specific programs necessary for achieving corporate objectives (SECCS 1985, 18).

In a further recognition that methods of management needed review, the previously mentioned employee survey to be conducted in late 1985 aimed to:

Assist in identifying areas which require change and enable the SEC, where necessary, to re-orient its human resource management practices ... In particular, there may be a need to further re-orient the SEC's recruitment, selection, promotion, training, reward and communication systems to ensure

the SEC Corporate Strategy is achieved, having full regard for the needs and welfare of employees (SECCS 1985, 18).

While the early Labor managerialist years were *prima facie*, very similar to the pre Labor years so far as methods of management were concerned, the scene was being set to change the traditional approach to management. However, the actual situation in 1986 was that the SECV remained highly bureaucratic and mechanistic, continued to recruit to senior positions from within and controlled the organisation centrally.

Corporate Planning Decisions and Control by Labor

Little real change occurred in, and little real 'control' was exercised over, SECV methods of management and organisation structure via managerialism and White's close management. Meanwhile, Labor's control of the SECV via influencing significant corporate and strategic planning decisions had a much greater impact.

While there are many definitions of corporate and strategic planning, the simplicity of Argenti's (1980) conceptualisation has particular appeal. Argenti described the planning function as a hierarchy of plans commencing with the corporate plan defining broad organisational direction through the enunciation of the few key decisions that would influence the long term future of an entire organisation. Next in the hierarchy, Argenti identified strategic plans as responses to the corporate planning directions identified. Beneath these lay the business plans and operational plans, which quantified and gave detailed effect to such strategies.

This hierarchal planning approach, supported by the appropriate business plans, was present in the SECV by the mid-1980s although the principal corporate planning document was called 'Corporate Strategy' (SECCS 1985). However, that document presented the planned future direction of the SECV and strategies to follow that path; it embraced both corporate and strategic plans in the Argenti sense.

So far as GBEs are concerned governments can take a major or a minor role in the development of their corporate plans. An important issue therefore, given Labor's intention to control the SECV, is what role did Labor play in SECV corporate planning? Control measures can include enabling legislation and associated regulations; these can be quite specific and in effect are key corporate planning decisions. However, in the SECV case the SECACT was not prescriptive in the corporate planning sense. The SECACT established a number of broad objectives and functions for the SECV. Two of the six objectives were quite bland with a requirement to use the State's resources efficiently, including the use of renewable sources of energy or cogeneration [s12(2)(b)], and to provide a safe and satisfying working environment [s12(2)(c)]. Three of the other four objectives related to operations, energy conservation and the SECV role in economic development, but in each case the actual objectives were to be set from 'time to time' by the Minister [s12(2)(9)] or from 'time to time' by the Government [s12(2)(e)(f)]. The final objective [s12(2)(d)] required the SECV to take account of environmental matters and comply with 'State Environment Protection Policies'. These objectives were not the big decisions that shape an organisation.

Section 12A of the SECACT set out nine 'functions' of the Commission. Again these were so broad that they could not be construed to provide a definite corporate direction other than that the SECV was to generate, transmit and distribute electricity [s12A(a)] while facilitating economic development [s12A(b)], promoting energy conservation [s12A(c)] and facilitating public involvement in SECV activities [s12A(h)].

Given that clear corporate directions (unlike administrative requirements or operational parameters) were not set out in legislation, it is necessary to look beyond the legislation to assess the extent of the Government's control of SECV corporate planning. In exercising control at the corporate planning level, a group of big decisions and non-decisions were taken by the Labor Government. This study has identified those key decisions as the Alcoa project, power station planning, proceeding on schedule with Loy Yang A and B, Labor's debt over equity preference

and industrial relations and labour costs. In effect, Labor largely took control of SECV corporate planning. Further, Labor's early corporate planning decisions were, on balance, to affect the SECV adversely for its ten year term.

The Alcoa Project

The Alcoa aluminium smelter at Portland in South West Victoria was a compelling example of successive Governments (Liberal then Labor) using electricity pricing policy to foster economic development. Negotiations between the Liberal Government and Alcoa resulted in the *Alcoa (Portland Aluminium Smelter) Act* of 1980 and, in March 1981, attractive electricity supply arrangements for Alcoa. After a period of further negotiation the Government announced in March 1982 that it had agreed with Alcoa on a tariff of 2.256c/kWh, which was lower than the SECV high voltage industrial rate at the time.

Despite these arrangements, the project did not proceed at once. The collapse of world aluminium prices in the early 1980s and the concern that the agreed tariff while low, could have been lower, caused Alcoa in 1982 to announce a deferral of its Portland project. The Labor Government worked hard to resurrect the project and in 1984 was able to announce that the project would proceed and that it would take a 25 percent equity in it. While it is beyond the scope of this research to inquire into the intricacies of the Alcoa project, two very important issues emerged from the 1984 agreement. First was the conflict between the Government's view that such projects were critical to Victoria's economic development and employment generation and its energy conservation policies. Second was the rationale Labor offered for the tariff arrangement with Alcoa.

The issue of economic development versus energy conservation is dealt with later in this chapter, and does not require any further commentary other than that the Alcoa agreement occurred in the context of a Government assurance, that other large energy intensive industries would be sought for Victoria. A selling point to attract industry was to be abundant and cheap energy resources. Alcoa was therefore part of

a broad policy initiative, not a 'one off'. The second issue is intriguing. The agreed base tariff between Labor and Alcoa was 2.669 c/kWh in 1984 dollars with quite complicated calculations required to determine escalations; the industrial rate at the time for high voltage users was 3.29 c/kWh during the peak period (SECAR 1984, 102). In addition to the base tariff, the agreement with Alcoa provided for a flexible tariff to move in line with aluminium prices. This link between the flexible tariff and aluminium prices was designed to foster the continued operation of the smelter in variable market conditions. According to the Government this was necessary to 'reduce the prospects of adverse employment and output adjustments in the Latrobe Valley ... when aluminium markets are depressed' (VGES3 1984, 30). Labor agreed to compensate the SECV when it was required to reduce electricity prices in line with aluminium prices; a decision that was to cost the Government \$444 million by 1992 (VCA 1993, 371).

It was not the size of the base tariff or the convoluted nature of escalation calculations that was so important, rather it was the rationale for reducing several of the variables in the calculation equation and hence reducing the cost to Alcoa that was significant. The Government used the newest and most efficient power station, Loy Yang A, as the marginal plant in its calculation of long run marginal cost, to determine the cost of generating power for Alcoa. Labor required a four percent real rate of return on the cost of generating and transmitting power to Portland. However, the Government then advised that the rate of return calculation was 'based on the replacement value of the (Loy Yang power) station under optimum conditions which reflect the targets set for the SECV by the Government for the construction and operation of the power station' (VGES3 1984, 26). In other words, the base tariff was not to reflect the actual and forecast actual Loy Yang A costs but what those costs might have been or could be in different circumstances. The return on Loy Yang A electricity was based on an 'optimum' replacement value of \$4350 million, not the 'actual and estimated' cost of \$4753 million, and an 'optimum' annual operating expense of \$132 million not the estimated \$156 million (VGES3 1984, 34). Costs to be recovered were idealised rather than real.

Labor proposed that, had the SECV developed 'a positive industrial climate' and been more efficient in constructing and running power stations, electricity generation costs would have been lower (VGES3 1984, 32). The Government therefore concluded that Alcoa's requirement to cover SECV costs and provide a real rate of return of four percent to the SECV should be predicated on this greater efficiency (VGES3 1984, 32). The summer 1985 edition of DME's Victorian Energy Plan Newsletter reported:

Most importantly, there is and will be no electricity price subsidy between the smelting project and other electricity consumers. The tariff must cover the costs of supplying the Portland smelter and also earn a real rate of return of four percent on the replacement value of the SECV assets used to generate and transmit power to the site (DME 1985, 9).

On this most important issue, the actual return to the SECV was not only determined by the Government, but a contrivance was employed to permit the base tariff to be subsidised by other electricity users despite the above claims to the contrary, as the tariff that others paid was not based on an idealised 'replacement value'. The subsidy to Alcoa via the flexible tariff was paid directly by the Government to the SECV and consequently did not impact on the SECV 'bottom line' or its other customers.

Labor's Rescue of the Alcoa Project

Cain's recollection of the 'rescue' of the Alcoa project and the work done by the Government and senior public servants to secure the 1984 announcement quite clearly demonstrates that the SECV's role was not central to these negotiations with Alcoa.

Cain commented:

The restart of the Alcoa Project would never have occurred if it had not been for the determination of Rob Jolly, David White and myself. This determination was solidly backed by people like Peter Sheehan and Peter Wilson, in the Department of Management and Budget. The solution of the complex problems around the smelter... involved a determination on our part to ensure that the SEC did not dictate to Government ... There were forces within the ALP, the SEC and the Government itself that, for a variety of

reasons, urged that we abandon the smelter issue and devote our energies elsewhere. This was resisted by a determined core of key people (Cain 1992, 271).

Cain recalled that within a week of being elected, the SECV and Alcoa had met with him and Ministers Jolly and White, about the future of the project. Alcoa advised that it was not likely to commence construction until the end of 1983, which for Cain, 'was not good news to a new Government trying to expand the economy and jobs' (Cain 1995, 132). The Government established a Cabinet sub-committee on Alcoa and installed Peter Wilson as its secretary and head of its negotiating team – a position he held for two years. As a former chief economist of the SECV, Wilson was quite familiar with the project (Cain 1995, 132).

After intense negotiations and offering a series of concessions that were rejected by Alcoa, a joint announcement of a deferral of the project was made in July 1982. The negotiations and exhortation by the Government continued through to February 1983, when a fresh set of proposals was considered by Alcoa. By this stage Cain observed 'Alcoa and the SEC had each moved deeper into the trenches over the price of power and the enforceability of the agreement over Alcoa's take-up of the power needed for the smelter' (Cain 1995, 135). This was a reference by Cain to an agreement under the previous government for Alcoa to pay the SECV for unused electricity.

A further complication arose when the SECV formally advised Alcoa that its contract to supply the Alcoa smelting facility at Point Henry was about to expire, and that in the absence of a new agreement, that it intended to terminate power supply. Alcoa rejected the SECV method of giving notice and the Government's lawyers agreed. This infuriated Cain who had wanted to combine the finalisation of Alcoa's Portland and Point Henry pricing agreements at the same time. Cain convened a meeting with White, Trethowan and SECV officers during which he accused the SECV of undermining negotiations with Alcoa on energy pricing (Cain 1995, 135).

Cain described the SECV's response to his accusations as:

The SEC dug in, of course, and suggested a number of measures that would make life more difficult for Alcoa – which I did not accept, rather to the SEC's surprise. By the end of the day the SEC announced that they would continue to provide power to Alcoa under previously existing interim arrangements at Point Henry ... This was the independent SEC at its best. It had backed away from its hard line, but of course we had lost the bargaining position we had enjoyed two days before (Cain 1995, 135-136).

Cain wrote that by May 1984 he had become impatient with Alcoa and pushed for the company to start construction or call the project off. The company agreed to proceed and to sell down to third parties after construction had commenced, as opposed to finding such partners prior to commencement. Alcoa's reluctance to proceed before it had secured equity partners had been a key sticking point. An indication of the role that Government played in this and, by inference, the extent to which the SECV role was not central, is found in Cain's words:

Finally on 31 July 1984 our persistence and doggedness were rewarded. We had got there. We were agreed. A thousand pages of joint-venture agreements and power contracts were signed that day and we were able to make a public announcement that the issues had been resolved. I think one of the most satisfying aspects of this was that the announcement was entirely ours and came as a genuine surprise to the media (Cain 1995, 137).

In brief, the Government negotiated the requirement to supply electricity and the price of supply, to what was to become Victoria's largest individual electricity consumer. Cain's (1995) only acknowledgment of SECV involvement in the process was his criticism of its part in negotiations and its intransigence. Further the Government employed a disingenuous rationale for setting the base tariff, which meant that other SECV customers subsidised Alcoa. In this most important corporate decision the SECV under Labor was not a key player; it was a case of Government 'control'.

Power Station Planning and Construction

Of the range of decisions likely to affect the SECV in the medium to long term none were more important than those associated with the SECV's long standing challenge to match secure electricity supply with demand. Lack of generating capacity and

resultant rationing was clearly 'life threatening' organisationally. As Trethowan commented, 'excess capacity is not a political sin, whereas restrictions [of electricity] are a political sin' (1991, 47). Conversely, excess capacity, as an over-reaction to such a threat or as a result of poor forecasting can result in lower profit, higher tariffs and accusations of wasting capital. The SECV history was based on bigger and better power plants as examples of engineering excellence; smaller more flexible plants were not part of the SECV culture (Dreyfus 1998; Kellow 1996). Further, small units were not part of the Latrobe Valley culture of continuous large-scale construction providing employment.

Safe and secure electricity supply was a key SECV corporate goal in the years leading to 1982 and was also a legislative requirement. While this was still the case after the 1982 election, the SECACT raised the need for the SECV to meet a number of associated but new objectives. These included the implementation of energy conservation programs and 'the substitution of more plentiful or renewable resources for less plentiful resources' (SECAR 1983, 4). This conservation/substitution requirement required a focus on two new issues, the first being the need to consider alternatives to coal for electricity generation and the second, to work on electricity demand side management.

While it is arguable that the SECV was not exclusively committed to supply side management up to the early 1980s, there is limited evidence of demand side objectives at the corporate planning level, apart from attempts to encourage consumption through variable tariffs. The principal focus was ensuring capacity, not on influencing demand. Writers such as Kellow (1996) and Dreyfus (1998) contend that up until the 1980s the SECV was almost exclusively concerned with supply side planning and passive acceptance of demand, with little or no demand side management through conservation or pricing policies. Kellow (1996) suggests traditional electricity planning had a fundamental problem: it was engineering and economics based and relied on natural science assumptions, consequently it was positivistic not probabilistic in nature.

Kellow's proposition is supported by Jack Johnson (1993) an SECV Assistant General Manager in the 1970s. Johnson described the SECV planning process up to the early 1980s as starting with a ten year forecast and hence determining that 'a certain block of additional generating capacity' was required. The SECV decision on the timing of that 'block' of capacity being commissioned was based on further forecasts by the 'marketing group' (1993, 13). The marketing group's forecasts were then cross-checked by Johnson's 'development' group. Only after decisions were taken on capacity requirements and timing, were alternatives to the initial 'block' of capacity considered, and then, according to Johnson, only 'because you are required by legislation to report the most efficient, effective way of doing it' (Johnson 1993, 13). White, in a cryptic assessment of Johnson's approach to power station development, described him as the 'proponent of growth unlimited' (1996, 3).

A New Forecasting Methodology

At the time of formation of the Corporate Planning Division in 1983, there were several large extensions to the generating system in prospect. Those extensions were based on previously forecast demand levels. By 1983 it was apparent that such forecasts were incorrect and the SECV was faced with a dilemma: it was in a position of excess capacity and an extension to capacity through the partially completed Loy Yang A project was at an advanced stage. Further, there were high levels of expectation by unions and the Latrobe Valley community that Loy Yang A would proceed on schedule and be followed by the 2000 MW Loy Yang B project.

The Loy Yang A project could have been delayed in part at least, instead it added 2000 MW to SECV generating capacity over the middle of the 1980s. This additional 2000MW resulted in excess capacity at an RPM of 22.5 percent, of over 1000 MW for 1986 to 1988. In its 1982 Annual Report some three months after Labor was elected, the SECV forecast that the first unit of Loy Yang A would be in full operation by the winter of 1984 (SECAR 1982, 13); this was achieved (SECAR 1984, 13). The second unit followed the next year on schedule (SECAR 1985, 8), at which time the forecast first steam to turbine dates for units 3 and 4 were 1986 and

1988 respectively; this was also achieved. With such long lead times for units 3 and 4 that it seems reasonable to presume contractual obligations could have been renegotiated, if there had been a will.

Against this background of poor forecasts and with Loy Yang A proceeding on schedule in the face of excess capacity, the SECV implemented new forecasting techniques. Revised long term load forecasts, based on an alternative to the traditional SECV single-line estimate approach, were developed by the Corporate Planning Division and released in May 1983. This new approach resulted in forecasts of 'a most probable range consistent with the requirement for flexibility in planning to cater for uncertainty' (SECAR 1983, 53). This was a thinly veiled commentary on the superiority of probabilistic planning over the traditional deterministic approach.

So far as future capital works after Loy Yang were concerned, the SECV reported in 1983, that due to lower growth rates and the uncertainties of the future, 'a comprehensive review of all options will need to be carried out prior to any recommendation being made on the next power project' (SECAR 1983, 13). In the same report, under the heading Long Range Development Planning, a range of generation options including the proposed 4000 MW Driffield project, black coal, brown coal, hydro and pumped storage were all raised as the subject matter for a review of generation planning after Loy Yang (SECAR 1983, 54). This review also included the prospect of smaller developments than the proposed Driffield project and unit sizes smaller than the 500 MW modules of the Loy Yang project. On the surface at least, the SECV presented itself as open to a range of future generation options including smaller and more readily constructed power stations.

As part of a series of documents designed to point the way to achieve future economic prosperity, the Labor Government in 1984 released a two volume 'Economic Strategy for Victoria' (VGES) together with a series of supporting statements. Labor identified a number of future electricity supply objectives including interconnection with South Australia and the encouragement of

cogeneration and conservation practices. The Government also announced that the SECV's Corporate Planning Directorate would develop a strategy plan over 1984, to provide the foundation for cost effective and flexible electricity for the next 15 years (VGES 1984a, 121). This period covered the latter units of Loy Yang A and all of Loy Yang B.

Employing its new planning methodology, in October 1984 the SECV released a report on electricity supply and demand to the mid 1990s (SECSD 1984). The October report forecast that to the late 1980s there would be a likely surplus of generating capacity and that in the period 1989 -1994 there would be a 'growing shortfall of generating capacity' (SECAR 1985, 9, 64). This 'shortfall' was forecast in the knowledge, that the first units of Loy Yang B were scheduled to be commissioned in 1992 and that in 1984 excess capacity was 919 MW at 22.5 percent RPM.

Forecast Growth Rates and Capital Expansion Decisions

The critical test of the SECV's claimed new and improved planning methodology was whether or not that new approach delivered superior forecasts and in turn superior decisions. It will be argued that in the short run it did neither and, as it transpired, the long run did not matter for the SECV. By 1985 the SECV was looking to improve electricity supply operations by increasing the availability of existing plant, seeking opportunities for interconnection with South Australia and proceeding with the first two 500 MW units of Loy Yang B. The Government authorised the SECV to proceed with the order for the first two boilers for Loy Yang B in August 1985. The purchase of the boilers was to permit 'a flexible range of unit timing' but the aim was to 'achieve a 1992 date for the first unit' (SECAR 1985, 9).

On face value, improved forecasting and a flexible approach to Loy Yang B could be interpreted as a significant step toward more efficient capital investment. Closer examination reveals this not to be the case. Of the Labor Government's electricity supply decisions, Loy Yang B was the most significant. It represented an investment of several billion dollars and was proposed to come on stream in the early 1990s.

The decisions to proceed and the pace of proceeding with Loy Yang B were taken against a backdrop of significant excess capacity. The Government decision to proceed with the first units of Loy Yang B was announced after the October 1984 (SECS D) forecasts were developed by the Corporate Planning Division. However, the decision was taken before the release of 1985 and 1986 Corporate Planning reports which considered electricity supply and demand beyond the mid-1990s (SECAR 1986, 83), and therefore provided a context for the October 1984 forecasts.

At the time of developing those October 1984 forecasts, the SECV acknowledged its past poor forecasting performance:

There is always pressure on the forecaster to adopt an optimistic outlook ... the percent forecasting error over the past ten years ... shows a reasonably consistent bias upwards in the forecasts of about 1.4 percent per annum. It appears that the principal reason for this bias is over optimistic economic forecasts (SECS D 1984, 3).

Against this background of poor forecasts because of over optimistic economic expectations, the (SECS D) forecasts were developed in 1984 as a key SECV input to the Government's decision on Loy Yang B. A significant factor that the SECV had to take account of in developing those 1984 forecasts was the Labor Government's economic growth forecasts.

The DMB had provided the SECV with 'forecasts of State non-form product growth (and other key economic variables)' to assist it with electricity demand forecasts (Birrell and Stanley 1984, 6). In December 1984 a report prepared by Birrell and Stanley (1984) for the Minister for Minerals and Energy reviewed the 1984 SECS D report into electricity supply and demand to the mid 1990s. Birrell and Stanley commented in relation to SECV 'most likely' growth forecasts:

This forecast superiority of growth rates for the State economy is against the tide of experience of the last 25 years, presumably reflecting DMB assumptions about the long-term success of the new State Economic Strategy (Birrell and Stanley 1984, 7).

They went on to argue that:

It seems quite possible that DMB has adopted an overly optimistic view of future State economic growth in the 'most likely' scenario, and that the SECV 'most likely' forecasts of electricity sales are correspondingly too high (Birrell and Stanley 1984, 7).

Birrell and Stanley recommended to the Minister *inter alia*:

The potential for supplying power from existing generating plant appears to be greater than suggested in the Commission's Strategy. In consequence, we consider the need for power from Loy Yang B is unlikely to arise before November 1993, two years later than the Commission's most likely estimate, perhaps later still. Prima facie a decision to proceed with Loy Yang B need not be made for two years. Should our estimates of demand prove to be too low, conservation and extension of the life of existing stations can flexibly supply any reasonably prospective shortfall over the early 1990s (Birrell and Stanley 1984, nn).

According to Birrell and Stanley (1984), the Government could have delayed a decision on Loy Yang B for two years. Based on the SECV's historical forecasting performance, its acknowledgement of the impact of over optimistic economic forecasts in the past and the Birrell and Stanley report, it would have been prudent for White to push for such a delay. Further, this delay would have allowed time for further work on forecasts, and the 1985 and 1986 reports on electricity supply and demand beyond the mid 1990s, to be part of the decision making process.

A further reason, if one was needed, to slow the progress of Loy Yang B, was the potential offered by linking interstate energy supplies to the Victorian system to reduce the need for standby power when generation units were down. In 1983 Victoria and South Australia (SA) had started to explore the concept of interconnection and the synergies of interchange deriving from the 1800 MW transmission line to Portland to meet Alcoa's smelting demands. The Victorian and NSW systems were already connected via the Snowy Mountains Hydro-Electric Scheme.

In February 1985 the Premiers of Victoria, SA and NSW had announced an agreement to link supplies from the Portland line and a planned Mt Gambier to Adelaide line, with NSW able to participate in exchanges with SA through the Victorian system (MEJ 1985, 11). Among the benefits claimed for the interconnection were that long term planning for additional capacity could be optimised and less reserve capacity would be required (MEJ 1985, 13). The interconnection and these likely benefits did not mitigate the push for Loy Yang B, even though the SECV was an integral part of the Study Group that researched the interconnection proposal and jointly represented Victoria with DME in negotiations on the Heads of Agreement.

A Political Imperative - In essence, calls to defer Loy Yang B were subordinated to the political imperative of maintaining employment on the SECV construction program. Proceeding on schedule with Loy Yang B was a decision to construct excess capacity; this was one of the costs of Latrobe Valley industrial relations harmony. Trethowan, White, Cain, Herington and others all acknowledged in different ways that the power of Latrobe Valley Trade Unions posed a threat to the Government and the SECV through their ability to affect power supplies to Victoria. Certainly, any proposals to change the direction of the SECV, particularly changes with the potential to impact on employee numbers or conditions of employment, could only occur with union agreement if conflict was to be avoided. In addition there were the economic development imperatives of the Government. White summed up the Labor Government's position from his perspective as Minister for Minerals and Energy:

The State Labor Government was supportive of the power station construction in the early '80s, both the completion of Loy Yang A and the commencement of construction of Loy Yang B both for economic development, for State and for job security in the Latrobe Valley (1997, 6).

He concluded that 'there was no economic justification in continuing this, in having this program of continuous power station construction' (1997, 6). White admitted that 'the 1985 decision in respect of Loy Yang B was not a sophisticated,

environmentally sensitive decision. So it was not an adequate decision' (1997, 11). In a frank disclosure of the pressure to proceed with Loy Yang B, White commented that there was a 'pro-development, pro-jobs focus' within Cabinet. Further, while the 1984 decision to support Loy Yang B proceeding on schedule was his, had he chosen the alternative course he 'would have incurred the opposition of the SEC' (1997, 14). White made it quite clear that the SECV was a main driver in this:

In 1984 I made a decision in support of a pro-development, continuous power station objective knowing that it was not consistent with the logic that was being put by the environmentalists. The SEC were putting pressure on to proceed with Loy Yang B, but I was not under that pressure from the Premier and the Treasurer. If I had chosen the opposite course of action to delay ... it would have been a lot of pressure from the SEC which would have found its way into media (1997, 14).

Abundant Energy - In addition to the Latrobe Valley imperative, the general importance of economic development to Labor leading into the 1985 State election, is borne out by its 1985 Resources Election Platform (ALREP). The ALREP stated that 'the Cain Labor Government has two simple, major economic priorities - to revive the State's economy and to create jobs for the benefit of all Victorians' (1985, 3). Labor also promised to complete the Loy Yang A Power Station and 'make plans for and commence construction of the power station to follow Loy Yang A' (ALREP 1985, 10).

Following a claim that Labor had applied 'rigorous cost control' to electricity supply and that this had presented an opportunity for 'smaller industries to flourish by taking advantage of Victoria's relatively cheap electricity' (ALREP 1985, 20), Labor went on to promise:

We will conduct a major overseas marketing drive to interest energy intensive industries in Victoria commencing with briefings for 110 Japanese and Korean companies (ALREP 1985, 21).

On the other hand, energy conservation received only passing attention in the ALREP, with promises to assist pensioners manage energy bills through the Home

Energy Advisory Service and to introduce a commercial energy service. Solar energy was to be promoted via extension of the existing marketing program and various studies were to be conducted into renewable energy sources.

It is clear from the ALREP that the mood of Labor had changed. Economic development, jobs, big projects and investment were key words. Conservation was not part of this rhetoric, and was far from an important part of the Labor philosophy in its second term, ironically neither was demand management, other than to encourage industrial consumption to utilise capacity.

The Government decision to proceed with Loy Yang B was formally made in August 1985, when White had moved to the Health portfolio and the Department of Minerals and Energy was subsumed into the Department of Industry Technology and Resources under Deputy Premier Robert Fordham. However, the cumulative effect of the SECV 1984 SECSA report, White's 1984 position and his ongoing support, Cabinet's jobs preference and Labor's economic development thrust meant that Loy Yang B was always going to proceed. As White commented, 'the climate that existed made the construction and commencement of Loy Yang B1 and 2 politically inevitable and there wasn't anyone with the will within the Government to change that' (1997, 11). This was another area of strong 'control' exercised by Labor, but was in line with past SECV practice and it would appear that on power station planning it was quite prepared to be 'controlled'. As Birrell and Stanley (1984, 1) noted in their report to White, the SECV had wanted a Government commitment to Loy Yang B in 1984.

SECV forecasts and the preference of SECV management and Labor to complete Loy Yang A on schedule and proceed with Loy Yang B, meant that the power station construction program did not change up to 1986 under managerialism. The new and improved forecasting techniques did not challenge the SECV, Labor or the Latrobe Valley culture of continuous large power station construction. The SECV dispensed the same optimistic forecasts and preferences on power station construction as it had done for decades, and was actively influenced in this by Labor.

Capital Expansion and Debt

The Government's strong influence was also present in the ancillary area of capital financing. As McColl (1987, 22) observed, the SECV together with many other OECD electricity supply organisations, had high levels of external debt because of an over-investment in capital based on earlier over optimistic demand forecasts. However, by the early 1980s the SECV and the Government could have deferred construction of the later stages of Loy Yang A, instead of perpetuating a debt funded over investment, and stalled commencement of the debt funded Loy Yang B.

Over capacity greatly inhibited the SECV's ability to lower real electricity costs as the cost of under performing assets formed part of the cost of production. The decisions surrounding excess capacity are of major importance for this study as previously discussed, similarly decisions to fund capital expansion by debt were a major influence on the SECV. There is a range of debt reduction/interest burden reduction strategies available, these can vary from equity participation through to privatisation. The SECV and Labor did not divert from a debt preference under managerialism.

Again the Government's role in planning and decision-making was significant. However, it is also important to note that so far as finance was concerned, many key decisions were taken prior to the election of the Cain Government in 1982. CMP (1983, 11-10) pointed out in 1983 that SECV total borrowings of \$120 million in 1975/76 had grown to \$1140 million in 1981/82 and were projected to reach \$1580 million in 1985. Finance charges of \$200 million in 1983 were also forecast to reach \$530 million by 1986; in fact they reached \$908 million (SECAR 1986, 30).

CMP went on to forecast that the SECV could face liquidity problems in the future due to the need to refinance trade credit agreements of some \$800 million and new debt necessary to fund its proposed capital program. The consultants estimated that by the mid-1980s interest expense could represent around 33 percent of revenue and

because of State Government rate of return requirements, the SECV would be required to increase tariffs by 21 percent to meet funding needs (CMP 1983, 14). The consultants summed up the position with the concluding comment: 'declining load growth together with rising tariffs and capital requirements, present significant challenges to the SEC' (CMP 1983, 11-11).

While the SECV was faced with this quite serious situation, it was also faced with a Government, which in various policy statements, had made it quite clear that certain funding options were not acceptable. Such constraints were powerful influences on SECV corporate planning and in reality these 'directions' from Government fundamentally determined the future of the SECV. Government 'directions' included a commitment to keep electricity tariffs under the Melbourne CPI and for capital expansion to be funded by debt. The Government was unequivocal on this latter policy when it referred to its debt preference as a 'financing structure' which recognises 'the higher cost of equity relative to debt' and that it 'will not allow the build-up of equity' (SECAR 1983, 5).

On this major issue of capital expansion it is argued that the Government influenced SECV growth forecasts upwards, and then pushed for the maintenance of the Loy Yang A and B construction programs. This had the effect of enshrining excess capacity funded by debt into the medium term. Importantly, there is no suggestion that this was against SECV wishes, due probably to the fact that it was in line with historical SECV practice. Over capacity, based on over optimistic forecasts and largely funded by debt was not new to the SECV.

Other Labor Policy Influences and Controls

There were other instances of Labor strategies and decisions, which directly or indirectly, attempted to exert control and determine the overall direction of the SECV. Those strategies and decisions, while not as significant as those previously canvassed, were nonetheless important.

Coal Corporation of Victoria

In a 1986 update on Victoria's Economic Strategy for the business community the Premier emphasised that Victoria 'has virtually unlimited quantities of brown coal' (VGPR 1986, 7). This claim was in the same section of the document that referred to the Government's establishment of the Coal Corporation of Victoria (CCV) to succeed the Victorian Brown Coal Council, and assume responsibility for the management and exploitation of the State's coal resource. The document presented a progress report on the CCV's efforts to establish new industries 'based on a supply of at least five million tonnes of brown coal a year from the Loy Yang project' and also advised of its responsibility for 'expanding the market for briquettes' (VGPR 1986, 6).

The CCV mission was to:

Initiate, facilitate and co-ordinate brown coal based developments to provide maximum long-term benefits to Victoria including new jobs, new technology, new investment and new products (CCV 1985, 3).

One of the CCV's stated functions was to 'open, establish, supervise, operate and maintain open-cut workings for the production of brown coal in conjunction with the SECV' (CCV 1985, 3); this was a clear diminution of the power and autonomy of the SECV. The decision by the Government to establish the CCV and vest such power in it was of fundamental importance in the history of the SECV. It was the first formal reduction of the SECV's responsibilities since 1918. It was also the only significant structural change to the SECV's sphere of influence during Labor's managerialist years.

That SECV Chief General Manager Smith and Commissioner Gibson, were on the CCV board, meant that SECV was not without influence. However the SECV had lost total control over coal winning and the responsibility for marketing briquettes and coal (other than that required for electricity generation purposes) was transferred to the CCV, which was established by the Government as a self funding business.

General Energy Policy

Another significant early impact was the Government's requirement for the SECV to become part of a consolidated energy sector, and not a competitor for the other major Victorian energy body, the Gas and Fuel Corporation. For much of the previous decade, these two bodies had been engaged in a battle for energy market share. Under Labor, this overt rivalry was to be replaced by a co-operative approach to energy conservation and a heightened social obligation requirement, reflected in tariff concessions for certain categories of consumers. This policy thrust also included initiatives such as the Home Energy Advisory Service established in 1983 in the Department of Minerals and Energy (DME) to assist consumers to use energy efficiently. The Government and DME were interacting directly with SECV customers on electricity consumption matters; a practice that was foreign to previous SECV experience.

Further, the Government and the DME were the driving forces behind the Victorian Energy Plan, which set out an energy planning hierarchy in its summer 1985 newsletter. Under the heading 'The Energy Planning Program 1984/85', a number of strategy documents were listed for development. These were: Electricity Strategy, Energy Renewal Management Strategy, Brown Coal Strategy and Oil and Gas Strategy (DME 1985, 7). All of these strategies were under the umbrella of 'Victoria's Energy Future' a draft policy overview document, which was intended to outline options for utilisation and development of each energy type. This document set a future course for energy planning and policy development, and had potentially important implications for the SECV.

Interestingly, as documented earlier, while a range of energy conservation initiatives and policy directions were being put in place by the Labor Government, it was still emphasising the importance to Victoria's economic development of the State's plentiful and competitively priced energy resources. In the previously mentioned newsletter the Government's broad energy policy goals were listed as:

To stimulate the State's economy and employment prospects through development of our energy resources... To secure energy supplies for present and future generations, ensuring that all Victorians have access to these supplies; and... To provide responsible management of our energy resources so as to lessen any adverse social and environmental impacts (DME 1985, 7).

The Victorian Labor Party's 1985 resources election platform (ALREP 1985, 20), included under the heading 'resource management', two significant policy directions. First, Labor undertook to encourage industrial development in Victoria and to stimulate the Latrobe Valley economy. Second, and even more significantly was an intention to attract 'energy intensive industries' to Victoria (ALREP 1985, 21). The attraction of high energy users to Victoria had been flagged in the 1984 economic strategy (VGES), where a key element was to identify and make greater use of Victoria's areas of comparative advantage. The Government proposed that considerable benefit could flow through the attraction or expansion of energy intensive industries, and went on to state when referring to new tariffs for high voltage users 'Victoria now has the lowest prices for large industry in Australia' (VGES 1984a, 122).

Consequently, while SECV corporate planning was subject to a range of new Government directions and controls, these were not always consistent and some internal reconciliation was required. It will be shown in subsequent chapters that the SECV handled this by largely ignoring conservation and cogeneration 'responsibilities'.

Community Consultation

Another area where Labor in Opposition had been highly critical of SECV performance was community consultation. While the Labor Government was persuasive and, at times, prescriptive in the areas of supply and demand forecasting, organisational resourcing and financing, it was also quite directive in the area of community consultation. This was achieved formally, by changing the SECV Board

to include representatives from employees and conservation/community groups and amending the SECV Act, to require consultation on major issues.

The CMP report was a further influence in this regard with its commentary on the 'growing trend for Government, individuals and communities to challenge the Commission's performance or activities' and that 'the Commission is sometimes perceived as not acting in a manner that serves the public adequately' (CMP 1983, 11-13). The consultants concluded that the SECV needed to develop processes to protect its image on the basis that 'the underlying forces leading to criticism of the Commission are likely to persist' (CMP 1983, 11-13). The recommended approach was to form an External Affairs Department as part of the Corporate Planning Directorate. This Department would, through a concentration of functionality, handle all external relationships regarding SECV activities. One of the key advantages put forward in support of this approach is that it would ensure that the SECV spoke 'in a unified, effective voice to the Government' (CMP 1983, 111-12).

In addition there were also strong internal influences for the SECV to adopt a new approach to consultation. A paper prepared by the newly appointed Gibson in May 1983 called for the establishment of an Environment Planning and Management Group and claimed it would improve the 'poor relationship between the SECV, other Government agencies, and other environmental interests'. Gibson wanted to address a situation where SECV 'environmental achievements have been treated superficially, while difficulties have been treated with excessive secrecy' (1983, nn).

In the first four years of Labor it was not apparent that the SECV had become more 'open' or accessible to Government departments, interested community groups or the public generally. Certainly, its annual report performance measures were more informative than had previously been the case and the release of strategic planning documents was an initiative. Significantly though, and in line with the theoretical expectations of a large bureaucracy, a separate public relations unit was responsible for the dissemination of such material and there is no real evidence of SECV management paying attention to any feedback received. An example of this lack of

attention to feedback was the community reaction to proposals to proceed on schedule with Loy Yang B with opponents (principally environmental groups) claiming that it was not a rational decision (White 1997, 14). The Government and the SECV pushed on regardless. To use the words of the Director of Corporate Planning with responsibility for public relations Kingsley Culley (1991, 144), the SECV only 'paid lip service' to consultation.

Industrial Relations and Labour Costs

The Labor Government did not restrict its influence on the SECV to key corporate planning decisions and directions. In the operational areas of industrial relations and labour costs and the associated issues of overmanning and poor work practises Labor played a key role. Calculations from Table 8 disclose that for 1985/86 the cost of 'labour, materials, contracts and miscellaneous' represented around 48 percent of total operating expenses and more than 54 percent when depreciation (a relatively non-controllable expense) was excluded. Consequently, 'labour etc' was the key operating expense that impacted on operating profit and any savings in this area translated straight to the SECV 'bottom line'. It will be argued that the Government played a major role in the SECV approach to managing labour costs. As White commented:

In the period 1982-1985 there were industrial relations disputes one of which was related to pay and conditions for people working on the dredgers and the SEC were very unhappy with the resolution of that conflict because they said ... I had agreed to an extra person on the dredgers ... in the period 1982-1985 a lot of support was given to redressing industrial relations issues that had not been properly addressed by the previous administration and in that sense the trade union movement got a reasonable go from the Government (1997, 4).

Not only is this indicative of Labor's attitude to Latrobe Valley unions, but is also an additional insight into the extent of involvement in day to day affairs, exercised by White. On the issue of industrial democracy White said that the Government had experimented with Latrobe Valley union demands, but 'productivity did not

improve'. He conceded that on industrial relations 'we proceeded fairly cautiously on the first occasion I was Minister' (1996, 5).

The SECV 1983 Annual Report recorded 14,316 'manhours' lost for the year through industrial action compared with 1981/82 when some 79,000 hours were lost (SECAR 1983, 12). The SECV commented that it had commenced a consultation program aimed at 'improving the quality of work life of... employees' (SECAR 1983, 12). Areas investigated in this consultation included improved communication and employee participation in management decision making and 'working parties' of management, employees and unions jointly considering matters such as occupational health and safety and technological change management. While it could be argued that improved participation and communication had led to an improved industrial relations outcome (measured rather simplistically in hours lost), it is also significant that over 1982/83, Labor's first full year, average SECV salary and wage rates increased by 18.7 percent (SECAR 1983, 34) while the Melbourne CPI increased by 11.25 percent. In the following three years increases in wage rates were more modest but still significant, 1983/84 - 4 percent, 1984/85 - 4.3 percent and 1985/86 - 6.7 percent. For first four full years of Labor the compound increase in average wage rates was 37.4 percent, over this same period the Melbourne CPI increased by 35.8 percent.

In 1985/86, a total of 16,867 employee hours were lost due to industrial disputation (SECAR 1986, 54). This compares more than favourably with the immediate pre-Labor years when losses of more than 100,000 per year were commonplace.

However, it does not follow that a dramatic reduction in hours lost is necessarily associated with improved industrial relations management. In the SECV case, the reduction in hours lost due to disputation was due to Government and management accepting a continuation of past poor work practices and overmanning and rewarding an inefficient workforce with above CPI wage increases. The principle reason for this was the political power the Latrobe Valley Unions exerted over the Labor Government, and the fears that the Government and SECV management had of

power shortages due to industrial action. It was much easier to do nothing than to tackle the issue of reducing labour costs.

Labor was well aware of the cost of poor industrial relations in the Latrobe Valley. The Department of Management and Budget (DMB 1982) study on the costs and management of the Loy Yang Project included consultants reports on the cost of industrial action. One such report by Professor Ken Wright (1982), estimated Loy Yang cost escalation to 1982, due directly and indirectly to industrial disputation, as \$300million (1982, 1). Another consultant, Fluor Australia (1982, nn), confirmed that industrial action on Loy Yang A had a \$100 million direct cost impact and \$200 million indirect cost impact up to 1982. Furthermore, Labor in Opposition had made much of the SECV's poor industrial relations performance.

Interestingly, for a bureaucracy, in 1982 the SECV did not have a clear industrial relations policy. As Culley and Betts (1981, 31) found 'line management is not aware of any specific SEC policy on industrial relations and is confused as to where the real responsibility lies'. Dreyfus (1998, 65) describes pre-Labor industrial relations as 'the age of confrontation and chaos'. The Labor years were like a state of peace in comparison. But what was the cost of peace? Dreyfus observed 'the unions forcibly took their gains from the Government and the SECV in the era of conservative Government...the Labor Government handed the unions their gains in a quiet, peaceful and orderly fashion in what could best be described as the age of compromise' (1998, 66).

The Government was also well aware of overmanning and poor work practices and had acknowledged this when establishing the rationale for the Alcoa tariff. One reason provided for that lower tariff, was that the 1982 estimated cost of operating and maintaining Loy Yang A, of \$156 million per year, should be discounted to \$132 million per year because:

After a review of Loy Yang by a number of consultants, the Victorian Government subsequently accepted that manning levels and certain other

costs included in this estimate were not appropriate and established a target reduction of 10 percent (VGES3 1984, 34).

The 'estimate' was developed by the SECV and the Government's reaction was in August 1984. At June 1984 the SECV employed 22,826 people, by June 1986 this was reduced by 3.5 percent to 22,045 employees. On face value this was a positive step in reducing overmanning. However the SECV had employed 21,891 people at June 1982 and consequently if the managerialist years, 1982 to 1986, are considered in total, the number of SECV employees actually increased.

In the Labor managerialist years SECV overmanning and poor work practices do not appear to have been addressed, although a reduction in employee numbers for the two years to 1986 was a step in this direction. Industrial peace was purchased by accepting overmanning and poor work practices and by proceeding on schedule with a construction program that built capacity well in advance of reasonable requirements. Further, the 'purchase' of industrial peace meant that existing awards and demarcations continued, as did their concomitant mechanistic rules and procedures. In other words, a critical cost of inaction on the industrial front was a reinforcement of the bureaucratic way of the SECV.

SECV Performance Under Managerialism

The analysis of fundamental SECV organisational data for the managerialist phase from 1982 to 1986 divulged that this was a period when finance charges, including capitalised finance charges, rose from \$384 million to \$908 million while non current liabilities increased from \$3308 million to \$6134 million, which was broadly in line with the increase in net fixed assets. By 1986 excess capacity was 1067 MW at 22.5 RPM and productivity improvement in the four years to 1986 was only marginal. It was a period when a review of raw data suggested that much could have been achieved with a different tariff policy or with the deferral of construction of Loy Yang A. It was also a period when little was done to address poor work practices and overmanning and when labour costs rose faster than the Melbourne CPI for the four years to June 1986. It is argued that the big decisions, or non decisions, under

managerialism did little to change the SECV and on balance those decisions so far as they related to generating capacity, funding, forecasting and labour production costs were not appropriate.

Key Decisions Under Managerialism

Under managerialism, and all that it promised in theory, what really occurred was a series of critical organisational decisions that were based on economic imperatives or fear of Latrobe Valley unions. The significant decisions taken during this phase which were to be so important for the future of the SECV were those on Alcoa, generating capacity, forecasting methodology, overmanning and poor work practices, debt and the extent of bureaucracy.

Alcoa

The Alcoa project at Portland had an impact on the SECV so far as generating and transmission requirements were concerned. However, the Victorian Government took the key decisions associated with this project on timing and tariff. The SECV was consulted but did not drive major decisions associated with what was to become its single largest customer, Alcoa. The Government's negotiated tariff with Alcoa was estimated by the VCA (1993, 371) to have cost \$444 million in subsidised tariffs to June 1992 due to depressed world aluminium prices forcing the tariff down.

Generating Capacity

The decision not to slow Loy Yang A units 3 and 4 and the decision to proceed on schedule with Loy Yang B meant that excess capacity with concomitant carrying costs was not managed down. Further, the decision to proceed on schedule with Loy Yang B meant that construction was not under pressure of an imperative to bring the project in to meet demand. While on the one hand this reduced union bargaining power as the project could handle time delays, on the other hand the focus to meet demand for electricity and hence the need to work quicker and smarter was not present. The Labor Government drove these decisions or non-decisions.

Forecasting Methodology

The establishment of a Corporate Planning directorate and the introduction of probabilistic planning for future demand forecasting was a combination of Government and SECV decision making. The optimistic economic growth forecasts of Government were key variables in SECV planning and lead to demand forecasts that were in turn too high. This, when combined with the SECV engineering driven preference for large scale power plants, as opposed to the construction of smaller more flexible units, meant that the excess capacity of the early 1980s was planned to extend through to the end of the decade and into the 1990s. On this key decision it seems that both parties were involved in and accepted the outcome. The new and improved planning approach, which was to supplant the old ways, was employed at the same time as the decision was taken to proceed on schedule with Loy Yang B.

Overmanning and Poor Work Practices

While it seems clear that the Government was not keen to see SECV management reduce Latrobe Valley employment, it is also clear that the SECV did not have the heart for a major confrontation on overmanning and counter productive work practices. Excessive operating costs, due to overmanning and poor work practices were not tackled in a significant manner in the early Labor years, and while attempts were made at innovative industrial relations and communication approaches, these were not the norm.

The Use of Debt

At the prevailing high interest rates it was a clear intention of the Labor Government that debt, not equity, should be the source of funds for capital expansion. Funding capital expansion with debt was in line with previous SECV practice, though in the past interest rates had been considerably lower. High interest rates did not impact on the Government's debt preference.

The Extent of Bureaucracy

The traditional SECV bureaucratic and mechanistic approach and structure continued under managerialism as it had for decades. The stimulus of managerialism did not change the culture or method of operation of the SECV and there is no real evidence that the Government pushed this. Program budgeting and the use of performance measurement to stimulate management and increase accountability, was emasculated by non challenging performance targets. Recruitment from within continued, apart from the Government appointed Chief General Manager, Smith, who, on the basis of no real changes in the early years of his tenure, seems to have been soon subsumed into the SECV culture. This proved not to be the case, as subsequent chapters argue, but his first years were unremarkable. Although, importantly, he did 'set the scene' with a new rhetoric for fundamental changes in the SECV and his early tenure included several important instances of a collaborative and less bureaucratic approach to management.

Conclusion

Apart from the Government decisions on Alcoa and the establishment of the Coal Corporation of Victoria, with its consequent impact on SECV autonomy (but no real impact on its core operations or strategic planning), the first years of Labor managerialism and control did not materially change the direction of the SECV. Certainly, there was direct involvement by Government in key decisions. However that involvement resulted in outcomes that were in line with existing SECV practices prior to Labor. In other words, greater involvement and 'control' and an emphasis on managerialism, resulted in the same outcomes that would have been expected in the absence of these influences. This leads to the conclusion that the bureaucratic SECV and the Government were as one on the big issues, principally because both parties had a vested interest in 'smooth sailing'.

The thrust of managerialism was jointly blunted by a bureaucratic SECV and a Government that had no heart for fundamental reform of the SECV as evidenced by

the SECV's cynical approach to annual performance targets and Labor's acceptance of this. By 1986 management, led by Smith, was starting to raise the notion of commercialisation as a cultural change that would improve the efficiency and effectiveness of the SECV. While the tenets of managerialism persisted through to the end of the Labor years the initial impetus of this had dissipated by 1986.

What then was achieved by a 'reforming' Labor Government and a supposedly more results oriented, accountable, open and efficient SECV? The answer is very little. At the operational level overmanning continued with the apparent blessing of management and Government and labour costs increased faster than the Melbourne CPI. Consequently, while days lost due to industrial action fell dramatically from the case in the early 1980s, it is hard to mount the case that this was due to improved industrial relations management.

Strategically, the Loy Yang construction program continued at a steady pace in the face of staggering levels of excess capacity. Further, the funding of this construction by debt, at the prevailing interest rates, compounded a corporate and strategic planning error of monumental proportions. An error that the State Government fostered, and one which SECV management was quite prepared to proceed with; where was the 'control' that Labor was going to exercise over the SECV?

While there was talk and much posturing regarding demand side management and probabilistic forecasting as opposed to the old deterministic approach, nothing changed so far as big decisions and the general course of the SECV from the pre-Labor days. Big power plants were the outcome, smaller more flexible plants (so far as construction and commissioning time is concerned) did not occur and were not seriously planned during the early Labor years.

What could have occurred during this time was an all out attack on overmanning and extreme work practices in the Latrobe Valley, in conjunction with a decision to defer by two to three years, at the very least, the commissioning of Loy Yang A units 3 and 4. These two actions alone would have been enough to initiate a 'new' SECV under

Labor. SECV management consumed Labor's managerialism and continued on as an engineering dominated, mechanistic and highly bureaucratic organisation. New responsibilities such as legislated corporate planning requirements were accommodated by the creation of new functional sections in the traditional hierarchical structure. The approach of a large bureaucracy when dealing with a new and volatile operating environment was, as predictions from the theory would propose, to increase specialisation and rules and operating procedures. In other words, to become more bureaucratic to cope with turbulence. In contrast with this reality was the rhetoric of Smith and his commercialisation push for the future together with important instances of consultation and collaboration with staff on a less bureaucratic future. The SECV proposed to decentralise, devolve, become more flexible and by definition less bureaucratic; it was just that under managerialism this did not occur.

Managerialism coincided with a mediocre operating performance, poor strategic decisions and a period of lost opportunity. The 'greater control' exercised by the Government resulted in a series of poor decisions or non-decisions. Significantly, managerialism and greater control can co-exist in theory. In contrast, commercialisation and corporatisation have at their core greater autonomy for the organisational unit and consequently, close control can work against such approaches. How the Labor Government and the SECV accommodated commercialisation and corporatisation is explored in detail in the following chapters. The next chapter considers the period 1986-1989 and the start of SECV commercialisation.

CHAPTER SIX

1986 to 1989 - COMMERCIALISATION AND PREPARATIONS TO CORPORATISE THE SECV

Introduction

By the mid 1980s the SECV had subsumed the State Government's managerialist initiatives into its traditional organisational culture. The time of greatest impact of managerialism had passed, and it had become a range of techniques, measures and tools that sat quite comfortably with a mechanistic organisation run along highly bureaucratic lines, such as the SECV.

But by the early 1990s, the Victorian Government was proposing corporatisation of its public utilities and was demonstrating a preparedness to entertain fundamental organisational changes to reduce debt and increase efficiency. In the intervening period of three to four years, between the declining impact of managerialism and the emergence of the stimulus of corporatisation, the SECV claimed to have introduced a 'commercial' culture aimed at driving improvements in productive efficiency.

The period from 1986 to 1989 was *prima facie* one of inaction and lost opportunities for both the SECV and the Government. A contributing factor to this period of apparent inaction was the diminished status of minerals and energy matters on the Government's agenda. The change in emphasis was reinforced by the Minister responsible for the SECV, the Deputy Premier, Robert Fordham and his DITR departmental head Hans Eisen. They did not attach the same importance to 'controlling' the SECV as their predecessors and both were more interested in the 'business' side of their responsibilities than energy matters. Considine (1992, 191) supports this contention when he argues that during Labor's second term the

Socialist Left of the parliamentary Labor Party became critical of the economic strategy thrust of the Government.

During the commercialisation phase, while the Labor Government was concerned with other matters and while little appeared to change, the SECV was in fact quite busy. The SECV established a less mechanistic divisional structure, started to plan to reduce its workforce by 20 percent and introduced a new dimension to organisational culture based on commercial or private sector business practices, with a focus on outputs and the 'bottom line'. However, while the new structure was formalised in 1989, its effect was not felt until later years and similarly plans to reduce the extent of SECV bureaucratisation were established, but not fully implemented, during the commercialisation phase. The commercialisation period was really a time when the SECV prepared the organisation for big changes to come.

Unlike the period of managerialism, when many key decisions which greatly influenced organisational direction were driven by the Government, during the commercialisation phase SECV management was the driving force for this directional change. This was not in line with the theoretical expectations of how a large paternalistic, bureaucratic and mechanistic body would have acted. The SECV took the initiative and showed a preparedness to change itself quite dramatically rather than look inward and attempt to preserve the ways of the past.

The Government Energy Policy Vacuum

The Labor Government's early years saw Minister David White and Bill Russell in Minerals and Energy, and Treasurer Rob Jolly and Peter Sheehan in DMB, pushing the managerialist 'reform' agenda that they had formed when working together on the PBRC. Whately describes this as the 'active years of 1982-85' and contends that 'reforms generally, as well as the changes to the SEC, were taken almost directly from the findings of the PBRC' (1992, 137).

Changed Ministerial Priorities

After its re-election in 1985, when the Labor Government lost two seats but was returned with a majority of six seats in the Legislative Assembly, it amalgamated the Departments of Minerals and Energy (DME) and Industry, Commerce and Technology (DICT). Following a hiatus, where the DME continued to exist as the Office of Minerals and Energy under the DICT banner, the Office was abandoned and the new Department of Industry Technology and Resources (DITR) was formed under the Deputy Premier, Robert Fordham as Minister and Director-General Hans Eisen. White took over the Health portfolio and Bill Russell was moved to head up the Department of Property & Services. White and Russell, two of the external drivers of managerialism in the SECV, were no longer directly involved with the organisation. Their successors, Fordham and Eisen, had an entirely different outlook and accorded the SECV a much lower priority.

The DITR key objectives and structure pointed clearly to this reduced emphasis on energy matters. The Department was created in March 1985 to give effect to relevant elements of the Economic Strategy (VGES), in 1987 DITR listed a range of functions which were the Minister's responsibility with the comment that 'all reflect major emphases of the Economic Strategy' (DITRPB 1987, 9). There were ten such functions, one of which was 'energy and natural resource management' (DITRPB 1987, 9). Minerals and energy functions had been relegated by Labor, from having the specific focus of a Government Department, to become a small part of DITR's responsibilities.

The Department's program budgeting publication for 1987 was quite forthright on priorities:

In pursuing the broader objectives of the Economic Strategy, DITR is focussing its efforts on the performance and growth of the trade-exposed manufacturing and service sectors of the Victorian economy (DITRPB 1987, 9).

Further support for the suggestion that Fordham's and Eisen's priorities were not with the SECV is found in Eisen's decision to stand aside from his position on the SECV Board in favour of his deputy, Elizabeth Proust. Whately, recounting an interview with Eisen stated:

He inferred that he felt it not necessary for the Director-General to be a Board member as one of the reasons for the appointment of a Deputy Director-General was to allow the Director-General to concentrate on liaison with the business community. It was also suggested during interviews that he was not personally interested in the energy area (1992,106).

Whately also argued in relation to Fordham:

The Minister took a less active role. His attention was devoted to other elements in his portfolio ... It was suggested during interviews that the Minister found the business aspects 'sexy'; easier to comprehend and politically (then) more rewarding (1992, 106).

A document issued to his Department by Eisen, 'Corporate Direction 1987-89' (DITRCD c1986), affirmed the organisation's commitment to the economic strategy through its 'amended' corporate mission. This mission described departmental responsibilities as including 'implementing the Government's economic strategy as it relates to the development of industry, the application of technology and to resource management' (DITRCD c1986, nn). The mission also included a brief description of the aim of the VGES, which was to 'stimulate growth in business activity and to create employment opportunities'. The Department saw its role as helping 'Victorian firms become and remain internationally competitive, and grow particularly through expanded export activity'. The closest the document came to embracing the SECV was the intention to encourage 'safe and effective exploration, development and efficient use of the State's minerals, quarry products, groundwater and energy resources' (DITRCD c1986, nn).

The clear thrust of this mission was economic development. That electricity and gas could be covered by the term 'energy resources', was a strong indication of

departmental emphasis. Sitting below the DITR mission was the 'corporate direction' presented in the form of 16 'department functions'. Not one function mentioned conservation, and the closest that any came to the prevailing statutory obligations of the SECV on conservation, was to 'encourage exploration, development and efficient use of the State's mineral and energy resources, taking account of economic, social and environmental implications' (DITRCD 1986,nn).

Over the next year a number of issues emerged which reinforced Fordham's and Eisen's preoccupation with the non-energy elements of the Department. Fordham resigned as Minister in 1988 and, following a period when Evan Walker was DITR Minister, David White again became Minister responsible for energy matters in February 1989 after four years in the Health portfolio. Under Fordham the SECV was left to look after itself on 'day to day' issues, an approach in line with the pre-Labor days of less 'control'. During Fordham's ministry, whatever 'control' managerialism and White's weekly meetings had created, was largely lost. Walker, like Fordham, seemed to be more interested in the non-energy elements of the portfolio.

Further Distractions

Whately's (1992) view is that Fordham and Eisen focussed on the business sector by preference. This is supported by the thrust of the VGES and the status of DITR as its principal vehicle. However, even if this was not their preference, they (and the Victorian Government) were confronted with a range of serious financial issues in addition to Victoria's general debt position, which were distractions from energy matters. While public sector debt was becoming a political force by the mid to late 1980s, it was several specific financial mishaps that were the focus for Fordham, Eisen and the Labor Government.

As Davidson (1992) observed, confidence waned in Victoria's financial institutions and in the Cain Government's financial management with the demise of the National Safety Council of Australia (NSC) (which was outside Cain Government influence)

and the failure of one of Labor's key vehicles for the Economic Strategy, the Victorian Economic Development Corporation (VEDC). The VEDC lost some \$100 million to 1988; Davidson directly attributes Fordham's resignation from Cabinet in 1988 to the failure of the VEDC (Davidson 1992, 28).

Simultaneously the State Bank of Victoria's (SBV), merchant bank subsidiary, Tricontinental was experiencing financial trouble with losses estimated at around \$50 million in May 1989, but which grew to \$800 million by February 1990. The SBV Board resigned, but by July 1990 Tricontinental (which had been subsumed by the SBV) bad debts were listed at \$1.7 billion. The SBV was sold to the Commonwealth Bank by the Kirner Government in August 1990 (Davidson 1992, 29-30). While the Cain Government and its Ministers cannot be blamed for the Tricontinental fiasco, it came at a particularly bad time politically, given the NSC and VEDC experience. These financial issues were compounded by the failure of the Pyramid Building Society after (carefully worded) assurances by Treasurer Jolly that depositors' funds were safe.

On 29 March 1990 Treasurer Jolly resigned to be replaced by Tom Roper, formerly Minister for transport, and DMB was disbanded, Cain resigned in August 1990. The disbanding of the Government driver of managerialist reform, DMB, to be replaced by the Departments of Treasury and Finance, was a significant indicator of Labor formalising its waning commitment to managerialism.

Davidson listed the high debt policy of Labor as 'very costly in the second half of the 1980s' (1992, 41), while Considine and Costar (1992) summed up this period when commenting:

It is doubtful that any State Government would have survived the financial crisis which beset Victoria after 1989, starting with the ... (VEDC), escalating to the State Bank/Tricontinental collapse, and culminating in the forced closure of the Pyramid Building Societies (1992, 1).

While a number of the Government's 'distractions' from energy policy occurred late in the commercialisation phase, or early in the corporatisation phase, they are symptomatic of the issues confronting the Cain Government during the late 1980s. While Cain (1995, 239) argues that others, such as the Federal Government and the Reserve Bank, caused much of Victoria's plight, the cause is not the issue for this thesis. The issue was the energy policy vacuum caused by the Labor Government's preference for economic development and its further distraction from energy matters caused by Victoria's financial failures. In essence, the Government had 'things on its mind' other than general energy policy or SECV operating performance.

Labor's Policy Turmoil and Victorian and Commonwealth Policy Conflict

It is also important to appreciate when considering SECV performance in the 1980s that it worked in a State/Commonwealth Government policy framework that was at times ambiguous and on occasions contradictory. In a commentary on external factors that can contribute to the success or failure of a Government, Cain observed – 'our consultative process, an early plus for us, later became an impediment to decision making' (1992, 279). After expressing concern that in 1989 and 1990, on a number of key issues, Federal Labor politicians openly opposed his Government and caused the failure of several important programs, Cain turned his attention to the impact of party factions:

But the most potent external factors affecting Government performance were the party factions, and the way they comprehensively undermined the Government from early 1990. Squabbling and, at times, vicious brawling between, and ambitions within the factions fatally destabilised the Government. From March 1990 to April 1991 this destabilisation took the form of disloyalty to me and to Joan Kirner successively as Premiers ... (Cain 1992, 280).

However it is more likely, given Considine's (1992) view of Socialist Left disenchantment with the 1984 VGES and the policy conflict identified in Chapter 5 regarding conservation versus economic development, that this internal policy conflict was endemic to Labor and the Labor Government and not a phenomenon of the early

1990s. Cain also highlighted the resistance his Government met from the Commonwealth Labor Government for its 'Keynesian' economic strategy:

Perhaps the most persistent and telling opposition to us was from our Federal colleagues. Federal Treasury, almost from day one, resisted our economic thrust (Cain 1992, 280).

Of these external influences, while all had the potential for impact on the SECV, it was the Commonwealth Government that had the greatest capacity to drive the Victorian Government and hence the SECV, in a particular direction. Cain continued the theme of his attack on the Federal Labor Government when he argued:

Federal Treasury had always opposed the interventionist and Keynesian approach of the Victorian Government. It had bagged Victoria comprehensively from the time we were elected... The notion of Victoria having an economic strategy was, we were informed by our senior officers, criticised by Treasury (Cain 1995, 159).

Describing his economic strategy as a 'Keynesian welfare state model' he complained:

All our attempts to maintain growth and public sector infrastructure investment were met with derision... Our expansionist Keynesian policies in the early 1980s, which stemmed the slide, were in contrast to Canberra's dry approach. The Federal Government and Treasury were arrayed against Victoria's economic policies (Cain 1995, 160).

The relationship between the Victorian and Commonwealth Governments was a difficult issue for the SECV. Canberra wanted restraint and increased public utility efficiency via fundamental structural change, while the Victorian Government wanted investment in infrastructure and jobs. Both had the capacity to significantly impact on the SECV and its methods and sphere of operation. Significantly though, the Commonwealth was interested in public utility 'reform', while Victorian Labor in the mid 1980s was less interested in this. Other commentators who saw this policy conflict in the same terms as Cain, included Considine and Costar (1992, 5), who described it as: 'Victorian Keynesianism versus Canberra's economic rationalism'. They argued that: 'when Labor set out to revive a flagging Victorian economy in 1982, it did more

than apply conventional Keynesian techniques, it also declared war on the neo-classical economic orthodoxy of the Federal Treasury' (Considine and Costar 1992, 5).

A manifestation of this conflict occurred at the national level in 1988, when in response to widespread criticism of infrastructure industries' inefficiencies, the Commonwealth Government forwarded two references to the IAC. Those references embraced Government (non-tax) charges and the impact of constraints on international trade in services (BIE 1996, 43). These inquiries revealed inefficiencies with both pricing and service delivery and argued that this was an impediment to international competitiveness and this was having a deleterious effect on Australian business. The Australian electricity industry, and the SECV, was an intrinsic part of this criticism. The IAC attributed poor electricity GBE performance to *inter alia* 'excessive generation capacity; overmanning... conflicting objectives (and) government interference' in both the running of such bodies and their pricing policies (IAC 1989, ix).

The concerns with GBEs generally were, *prima facie*, able to be levelled specifically at the SECV. The SECV had excess capacity, overmanning, unclear and competing objectives, there was an absence of competition, and it had been subject to considerable government interference. Of these 'concerns' the issue of conflicting objectives was not a major hurdle for SECV management as it will be shown that the SECV largely ignored objectives imposed by the Victorian Government in areas such as conservation, cogeneration and demand management, apparently without too much Government reaction. Consequently, while some of the IAC's general concerns with GBEs do relate to the SECV, it is important to temper this with a case-by-case approach and appreciate that general criticism cannot necessarily be directly translated to specific cases.

Nevertheless, the Commonwealth Government push for reform was predicated more on an industry or macro policy framework than a case-by-case basis and as such there was an expectation that all GBEs including the SECV could be improved by fundamental structural change. The SECV was caught up in this Victorian and

Commonwealth policy conflict. It will be argued, that in what amounted to the Victorian policy vacuum so far as GBE reform was concerned, the SECV looked to the Commonwealth approach as the way forward.

The Rhetoric and Strategies of Commercialisation

During the mid to late 1980s the Victorian Government was distracted from energy matters and the SECV by financial and political issues and policy conflict with Canberra, and by its strong preference for economic development. In contrast the SECV was focussed on reform. It did not look inwards and to the past as critics of bureaucracy would expect, but embarked on a significant commercialisation program. It commenced this program of change by employing strong rhetoric to challenge many of the old ways. This rhetoric was supported by the announcement of key strategies to give effect to a commercialisation of the SECV.

It could be argued that the rhetoric of commercialisation first emerged in SECV annual reports in the late 1970s and early 1980s through the use of such terms as 'Business Operations and Business Results' in various annual reports and other documents. However, apart from these early indications that the SECV saw itself as a 'business', it was not until the mid-1980s that it embraced a comprehensive range of terms and to a lesser extent practices, that were previously the domain of the private sector.

A major focus of SECV management's commercialisation rhetoric was the customer and the performance measure, customer satisfaction. In 1987 the SECV announced that it had launched a marketing plan 'to give the SEC a stronger customer orientation' (SECAR 1987, 12). The next year the Minister's message in the SECV's Annual Report referred to its 'customer-oriented approach' (SECAR 1988, 3). Elsewhere in that report reference was made to two initiatives, first, 'a two way communication between senior management and the field workforce' and second, the aim 'to develop local strategy plans to achieve excellence in the delivery of customer

services' (SECAR 1988, 53). These two initiatives were important because of the collaborative approach in the first instance, and the notion of 'local' plans in the second. Both are examples of a less bureaucratic approach to management and the introduction of change. A strategy that was put in place to reinforce this customer focus, was the renaming the former Supply Department the Customer Service Department in 1986. This can be dismissed as a predictable approach for a bureaucracy, in that the new title was merely an extension of traditionally SECV functional organisational design. Alternatively, it is argued that in this case it was more, it was a formal recognition of the importance of the customer as an output recipient, as opposed to the 'supply' of electricity being the end of SECV responsibility.

A range of other examples also point to this more commercial organisational 'flavour'. In 1987 the SECV announced the 'development of District Business Centres to replace existing District offices' (SECAR 1987, 49). The following year, a range of new 'business' initiatives and a commercial joint venture with Telecom was reported (SECAR 1988, 4). This commercial direction was complemented with an attempt to change entrenched SECV attitudes through a program called 'Personally Improving Production' which directed effort to developing positive attitudes through improved management practices and work climate (SECAR 1988, 5). In addition, the SECV began a comprehensive internal communication program with employees called 'Energy Through People', this aimed to promote customer service, reduce costs and foster teamwork (SECAR 1988, 5). At the heart of the two programs was an 'empowering' of employees to develop a greater sense of ownership of organisational performance.

This empowerment of employees was supplemented by a theme of encouraging them not to be constrained by past practices. Interestingly the SECV, in its best bureaucratic, top down fashion, issued two documents to all departments which provided 'interim guidelines on new business opportunities as well as policies and procedures relating to financial and commercial aspects' (SECAR 1988, 15). However, while the method of communication was bureaucratic, and at odds with the

empowerment thrust, the message was not. Its commercial approach represented a significant philosophical shift for the SECV; it did not look to the past for the way forward.

In late 1988 the SECV also announced, under the banner 'SEC Corporate Identity', that 'we are changing our corporate logo and our colours to more modern designs to reflect the renewed emphasis on customer service' (SECN342 1988, 6). Tim Gurrie, Acting Manager Energy Services, said that the new image was developed by a consultant, and refined by an internal committee which had planned its implementation. Gurrie also advised in typical bureaucratic SECV fashion: 'as a result ... a corporate identity manual is being prepared. The manual will set out the guidelines for its introduction uniformly throughout the SEC' (SECN342 1988, 6). Again while the method of introduction was bureaucratic with strong central control, but the thrust was new and aimed to create a 'new' SECV.

A further example of management looking to new approaches for the future was a Marketing Plan released in February 1987. The Plan had seven strategies. These were, to create satisfied customers, position the SECV as socially responsive and environmentally conscious, develop employees involved in marketing, develop demand management measures, promote conservation and efficient energy use, facilitate economic development in Victoria and, finally, in a most commercial thrust to:

Make the best use of internal and external skills and resources through the investigation of opportunities for joint ventures and co-operative programs, the use of appropriate external specialists and the adoption of a fee-for-service policy for consultancy services provided by the SEC (SECN322 1987, 8).

The strategies were quite general and it could be argued that some had a cynical tone, particularly as the SECV had no substantive commitment to conservation and demand management. However the strategies were supported by 45, quite specific

and in many cases, measurable programs which brought together elements of managerialism and the philosophy of commercialisation.

A guide to the impact of commercialisation on SECV culture in the late 1980s is found in the remarks of Frank Martin, General Manager Design and Construction. Asked whether his Division would be able to design, project manage and fulfil the role of owner/client on the project to follow Loy Yang B-3 and B-4, Martin said :

We are effective and competitive project managers and designers, but we certainly have to demonstrate that expertise by going into competition with others in that market place and winning the job (SECN334 1988, 11).

This was a stark acknowledgment of the SECV's shift into a competitive market place for the provision of internal services. Opening up the organisation to competition was in direct contrast to traditional organisational arrangements, where internal providers were guaranteed continuity of their work without question.

By 1989, the end of Labor's first seven years, the SECV described itself as 'a public business that maximises the value of its products and services to the State' (SECAR 1989, 12). While referring to the Structural Efficiency Principle (SEP), which is discussed later in this chapter, the SECV then announced one of the most profound changes in its history:

The introduction of these major changes with significant increased flexibility in the use of the SEC's labour resources will create a situation where current numbers of employees will exceed that required for the efficient and economical operation of the organisation. As a result, a reduction in employee numbers of some 20 percent will occur over the next three years by way of a combination of natural attrition and voluntary retrenchment (SECAR 1989, 84).

This announcement had been preceded by the report that over the 1988/89 year the SECV had changed its organisational structure to improve cost effectiveness and customer responsiveness. Features of the new organisational design were 'flatter structures and devolution' (SECAR 1989, 82).

The cultural shift for a paternalistic and bureaucratic organisation to announce a 20 percent reduction in the number of employees was highly significant. How much of this may be attributed to the 'mind set' of commercialisation is unclear, just as it is unclear what precisely persuaded the Government and unions to permit such an action: perhaps the issues of debt and the need to foster improved GBE efficiency motivated the Government, while the public sector redundancy packages satisfied the unions. However, the announcement did require the agreement of the SECV, the Victorian Government and unions and was a collective 'shift' that was the SECV's most significant 'people' management decision of the 1980s under Labor, particularly given the political importance of the Latrobe Valley. In addition, it ended 60 years of employment growth, of 'cradle to the grave' employment and a culture of paternalism; it was symptomatic of a new SECV approach to management.

'New' Management Approaches

The SECV 1987 Corporate Strategy (SECCS) was a principal source of commercialisation rhetoric and concomitant strategies, where in the foreword Smith stated:

The main thrusts of this Strategy are summed up in three important words – Service, Efficiency and Caring. Hence, through this Strategy we will move firmly in the direction of being more customer-oriented, business-like and caring for both the community we serve and our employees (SECCS 1987, 3).

In light of subsequent decisions to reduce the number of employees, the following further extract from that foreword was hardly prophetic, 'we stress again our commitment to security of employment for all our employees' (SECCS 1987, 3). The SECV also reported on the outcome of initial employee consultation during the development of the SECCS. The SECV reported that employee 'feedback' highlighted:

The need for greater focus and clarity on what the SEC was trying to become and stand for ... This type of reaction to higher level direction changes or attempts to shift culture suggests that senior management has not adequately communicated its vision of the future to the rest of the organisation (SECCS 1987, 4).

This statement was significant as it was an acknowledgement by management that it needed to improve communication of its vision to a confused organisation. Further, the statement makes it clear that the 'vision' was management's and that it had been issued in a top down manner though, in reaching its position, the SECV had consulted with employees and sought their 'feedback'. It also shows that management was prepared to open itself to criticism. In an attempt to improve communication the SECV advised that:

SEC managers will be encouraged to practice a consultative management approach which emphasises open communication with employees and their unions, our customers and the community.... They will adopt a participative style of management to ensure the maximum contribution of all employees to the objectives of the SEC (SECCS 1987, 7).

An associated strategy to this participative approach announced in the SECCS was the SECV's commitment to devolution which aimed to move 'responsibility and accountability to the lowest practicable levels in the organisation' (1987, 7).

A demonstration of the difficulty for an organisation to fundamentally change past practices occurred after these new and more open management directions were enunciated. This arose when the SECV exercised its preference for rules and regulations when seeking to improve workplace communication. Following a 1987 Activities Review and Employee Survey, which identified the need for improved communication, in 1988 the SECV established an Internal Communications Project Team under the Manager, Corporate Relations, Brian Morley (SECN340 1988, 6). The project team developed a concept called 'Team Briefing'. In August 1988, a draft policy and a draft procedure was endorsed by the General Management Board for consultation with unions and employees in September. Released in December

1988, following consultation with staff and unions, the Team Briefing process aimed to introduce a structured approach to internal communication.

At the time of release of the Team Briefing initiative Smith remarked that 'poor communications underlay many of our problems' (SECN343 1988, 4). The new approach had a range of principles underpinning its general theme of improved communication. Those principles included the expectation that internal communications would be 'face-to-face whenever possible' and 'relevant, simple, open and frank and timely'. Management spelled out that 'the minimum requirements are structured, monthly meetings as outlined in the Team Briefing process' and 'quarterly monitoring on the effectiveness of that process' (SECN343 1988, 4). In typical SECV bureaucratic fashion, management added 'the process will be supported by other communications, e.g. managers frequently walking around work areas and communicating informally', and 'line managers and supervisors will be accountable for its effectiveness'. In a clear push for a more participative approach, the SECV emphasised that 'all employees will be encouraged to ask questions and provide feedback on their jobs and work environment, without fear of recrimination or criticisms' (SECN343 1988, 4).

Significantly, terms such as 'minimum requirements', 'quarterly monitoring' and 'accountable for its effectiveness', while demonstrating a clear commitment by management to the Team Briefing program, also smacked of an authoritarian, edict style approach to change. The problem of poor communication was identified and a solution dispensed, albeit there was consultation with staff on that solution. It is argued that this top down approach can lead to changes in behaviour but may not lead to a commitment to the change itself (Dunphy 1981). However, the SECV was highly bureaucratic and this was a management directive aimed at making it less so, as such the directive signalled a fundamental change in management approach. The SECV recognised that Team Briefing was only one element of a program to improve communication. Rodney Gray, an external consultant who worked on the project, commented that face-to-face communication must be consistent 'with other sorts of communications and with what managers and supervisors do. In other words,

actions speak louder than words' (SECN343 1988, 5). While the method of introduction of Team Briefing can be criticised, it was a clear recognition that the hierarchical 'top down' communication approach of the past required modification to foster a more dynamic 'up-down' process.

This more collaborative management approach was also at the basis of a management technique called 'Value Management' employed by the SECV in the late 1980s. While not concerned with general communication as per 'Team Briefing', value management was 'a multi-disciplinary team approach ... to problem solving' (SECN354 1989, 11). It was usually the case in the SECV that a person or group of people were responsible for introducing and promoting new programs. In this case it was Peter Felby who, as Principal Value Officer, commented in 1989:

Value Management has an important part to play in the process of change in the SEC. It gets people who are affected by change working to understand the logic of proposed changes and lets them contribute positively to the process (SECN354 1989, 11).

Such devolution and collaboration was in line with management's perception of a more commercial approach and it involved a significant cultural shift for the organisation.

Similarly, a collaborative approach was employed early in the commercialisation phase in the development of a Human Resource Plan, which commenced in December 1986. The Human Resources Plan was to have a qualitative as well as a quantitative aspect. It was concerned with 'the number and type of employees that will be needed to support program plans', plus 'such issues as health and safety requirements, training and development, and equal employment opportunity' (SECN321 1986, 3). Shelley Jones, Manager Personnel Planning and Organisation Services said at the time 'the aim of this new approach is to develop a systematic human resources planning process which will be an integral part of program planning and budgeting' (SECN321 1986, 3). The planning process comprised four elements: an environmental analysis, completion of planning documents by line managers, a

corporate review of such plans and monitoring their implementation together with performance evaluation.

The process was an example of line managers playing a role in internal planning and was symbolic of attempts to devolve certain central functions, in part at least, to divisions and departments. Significantly though, this devolution was within the structure and parameters that had traditionally prevailed in the SECV. This was well summed up by Jones who also commented 'monitoring systems will also be developed within the Human Resources Directorate to ensure that the programs and activities, which make up the larger plan proceed along lines compatible with corporate objectives' (SECN321 1986, 3).

In 1987, under the heading 'Employee Strategies' in the SECCS, secure employment was clarified to mean 'security of employment for all employees with a commitment to no compulsory retrenchment' (SECCS 1987, 12). There was also a commitment to produce by mid-1987 an estimated range of likely personnel requirements for the period from 1987 to 1990. Together, these two statements suggest that the SECV was at last coming to terms with the issue of overmanning and had commenced planning at least 18 months before announcing its intention to reduce employee numbers in 1989.

On face value the policies and rhetoric of commercialism with its customer focus, cost cutting and drive for efficiency and effectiveness was supported by two key strategies – a significant reduction in the number of employees and a move to mitigate the hierarchical mechanistic design that had characterised the SECV for decades. But what really happened over the years 1986 to 1989? Did the rhetoric outweigh the practice and in the case of employee reductions, why did it take so long to announce these changes when the problem of overmanning was identified in 1982?

Commercialisation in Practice

Under managerialism the SECV had a history of overtly embracing change but not in fact changing. To what extent then did the rhetoric and the practice of commercialisation align? Evidence of the extent of congruency of rhetoric and practice is found in a consideration of organisation structure, appointments to senior positions, methods of management, the Structural Efficiency Principle and the matter of the Richmond to Brunswick power line.

Organisation Structure

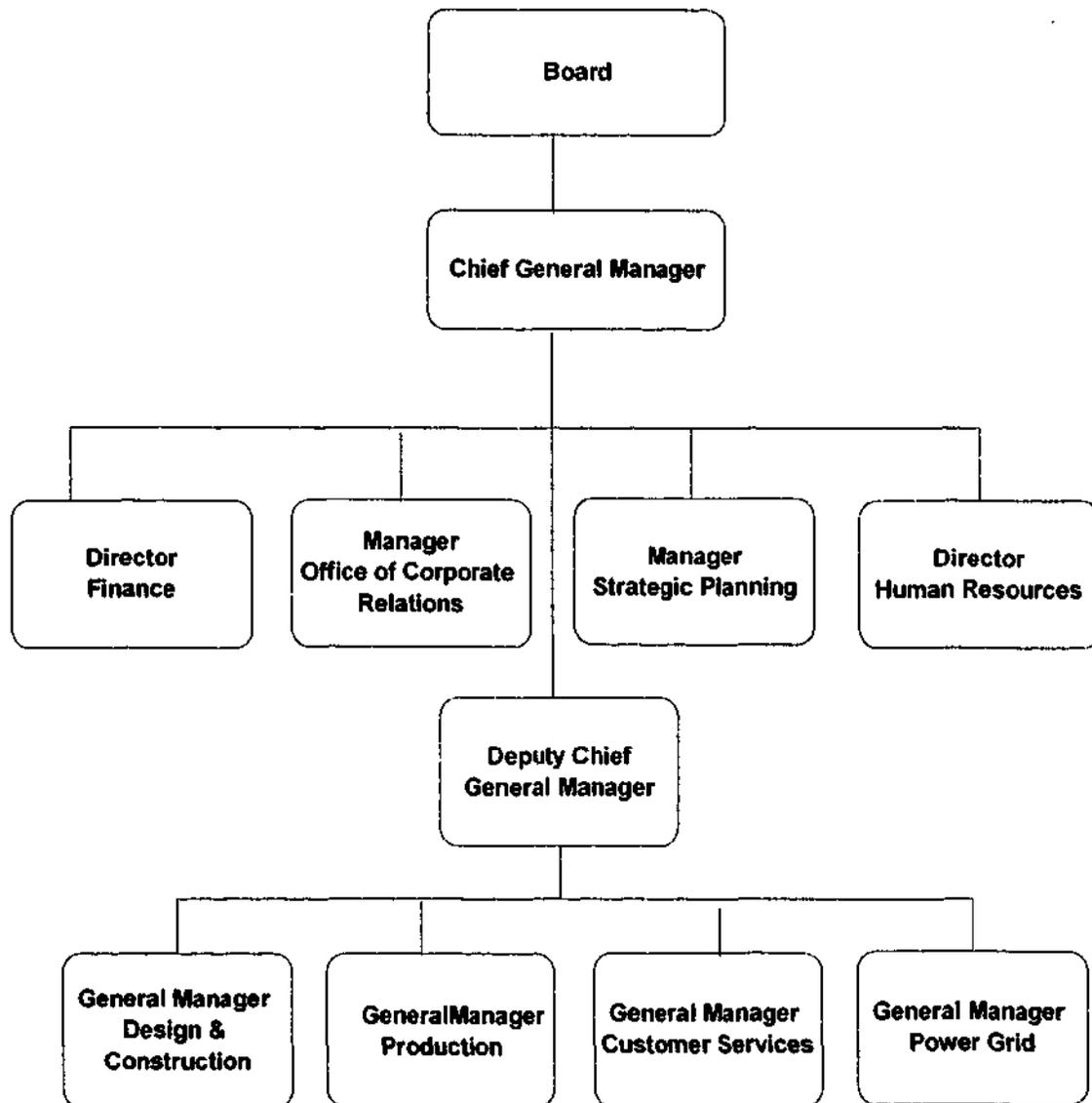
Between 1985 and 1989 the structure of the SECV remained largely functional though there was a strong trend towards mitigating the historically hierarchical, mechanistic and centralist approach, through measures such as the structuring of activities into three separate 'business units'. The three business units were Power Grid, Production and Customer Services. Other changes included, in November 1988, the abolition of the Corporate Planning Directorate and its split into an Office of Strategic Support and a Production Services Centre. This was a disaggregation into smaller units of specialist, like functions and was therefore not in conflict with SECV traditional functional structures. However it was symbolic that the Corporate Planning Directorate, which was formed in response to the legislative requirements of 1983, was no longer deemed necessary to exist as a discrete entity; nor was it considered necessary to retain the 'corporate planning' title. This change suggests that the SECV had moved on philosophically from the managerialist early 1980s.

In 1987 under Smith there were three 'staff' Directorates: Corporate Planning, Finance and Administration and Human Resources. There were four specialised 'line' functions under the Deputy Chief General Manager, Clem Joyce, Design and Construction, Production, Transmission and Customer Services. This split between line and staff functions persisted through 1988 and remained conceptually the same to mid-1989. Further, it is noteworthy that during the 1988/89 financial year, when the Corporate Planning Directorate was abolished, that the corporate planning

functions, including strategic planning remained as staff functions reporting directly to the Chief General Manager. While this reduced the staff Directorates to two, Human Resources and Finance and Administration, the four functional line divisions remained, though there were title and personnel changes.

Figure 4 sets out the 'reorganised' SECV senior hierarchy in 1989. It is, *prima facie*, remarkably like the organisation chart that existed in 1981 and presented in Chapter 3, not so much from the grouping of functions, certainly that had changed, but in the sense that it appeared to remain largely functional. However, the broad restructure was complemented by a series of other structural changes that, when taken together, represented a genuine attempt to commercialise the SECV and reduce its bureaucracy. Smith advised that the reorganisation would 'reflect further movement by the SEC towards the business-oriented operation of the mainstream activities of production, power grid and customer service' (SECN342 1988, 3). Further the SECV in its Annual Report emphasised that 'features of the organisational design were flatter structures and devolution' (SECAR 1989, 86). However, while this restructure was an important first step, the nomination of these three mainstream 'activities' as 'business units' was not fully supported by the further characteristics of a divisional structure such as true devolution; that was to come later. The strategy to commercialise the structure employed the right words, but initially, while the new structure in part established a less bureaucratic SECV, it also exhibited certain of the centralist and hierarchical elements of the past.

Figure 4 SECV Organisation Chart 1989



Source: SECV Annual Report 1989

The defining characteristic of SECV organisational design until 1989 was specialisation along functional lines, with a concentration of functions in response to new needs such as corporate planning and customer services. The more 'organic' divisional structure, which is expected theoretically to be more adaptive to a volatile operating environment, was nominally in place, with the creation of the three business units, but had not entirely shaken off the past. Significantly, though the formation of the Power Grid Group, was a step closer towards divisional structure,

with design, construction, operation and maintenance of the transmission system in the one primarily self-contained group.

Of similar importance structurally was a 1988 decision to locate some 30 human resource managers in line departments. This decentralisation was an element of the 1987 SECCS and was in line with devolving responsibility to line managers. However, again there were clear guidelines. As Bruce McIntosh, the Personnel Department project manager responsible for implementing the initiative noted: 'line management is, and will continue to be, responsible and accountable for the management of their human resources within the corporate wide programs developed by the Human Resources Directorate' (SECN337 1988, 9).

A further important development at this time was the establishment during 1988/89 of a Strategic Planning Board (SPB) on which both SECV Commissioners and senior management were represented. The SPB was formed to address 'future strategic issues of corporate significance' at the same time an Office of Strategic Planning was also established (SECAR 1989, 6). This was the year that the Director Corporate Planning position was abolished. Rowan Weatherhead, who formerly held that position, became General Manager Power Grid while one of his former subordinates Neil Henderson, became Manager Strategic Planning, which was a direct report to the Chief General Manager. The Manager Strategic Planning position and the SPB was a focus for organisation wide consideration of the 'big' issues for the SECV.

Specifically the role of the SPB was to:

Study, recommend and determine (as appropriate) the strategies, policies, programs and activities the SEC should adopt on future strategic issues of corporate significance; oversee management's implementation of the Corporate Strategy and approved NREC recommendations; and initiate and control the reformulation of the Corporate Strategy (SECAR 1989, 81).

The 1988 NREC recommendations are considered elsewhere in this chapter. The critical issue so far as structure is concerned is that while the traditional mechanistic

hierarchical approach of the operational divisions was being replaced by a more organic structure, this was also the case with staff functions. For staff functions associated with corporate and strategic planning, changes were substantial as exemplified by the abolition of the Corporate Planning Directorate and the formation of the SPB with its diverse membership. The strength of Smith as a strategist was probably the catalyst for this, as all staff positions were direct reports to him and worked with him and the SPB to formulate strategies and drive change.

Senior Officers

Over the period 1986/87 to 1988/89 there were 36 appointments to senior SECV positions, of these four were from outside the SECV (SECAR 1987, 1988, 1989). Of the four external appointments one was to the position of Secretary and two were in sales and corporate relations. The fourth, the appointment to Chief Engineer, Power was the first external appointment to head up a line function since Labor came to office. However, the appointee, RD Smith was a former SECV employee. Appointments from within persisted and in particular, the exclusive appointment of SECV employees to the large operational areas continued.

In addition to this continuation of internal appointments to senior positions, the dominance of male engineers continued through to the late 1980s. Over the three years to June 1989 of the 36 senior appointments all were male, 27 had formal engineering qualifications (though these were in several instances supplemented by management qualifications) and four did not list qualifications in annual reports (SECAR 1987, 89). A structure dominated by male engineers was in place just as it had been in 1982. This was an important finding as the many changes proposed under commercialisation involved long term employees in their development and subsequently in their implementation. The SECV not only demonstrated a propensity to change, but to do this with incumbent managers. In other words, incumbent bureaucrats were working to make the SECV less bureaucratic.

Methods of Management

Early SECV commercialisation was characterised by its claimed focus on the customer, attempts at devolution of central control, the initial steps towards a divisional reorganisation and the general use by management of the rhetoric of the private sector. In contrast with this commercialisation push and several instances of a more participative management approach, the SECV released three 'Human Resource' manuals in 1988: Volume 1, Employee Relations, Volume 2, Employment and Volume 3, Training and Development.

Issued by the Human Resources Directorate, the three manuals were a striking example of the difficulty that a traditional bureaucracy structured along functional lines and with many decades of central control had with actual, as opposed to rhetorical, devolution of authority. In the foreword to Volume 1, I.G. Macdonald the Human Resources Director stated:

With the increasing delegation of human resource management accountability and responsibility to line management, together with the recent initiative of placing Human Resource managers in line areas, the Human Resources Directorate considered it timely to update its Human Resources Manuals.

These three manuals ...provide the line areas with the broad range of corporate human resources policies, practices and procedures that currently exist. These policies and procedures should provide the overall framework for local areas to conduct their human resource management practices within acceptable corporate guidelines.

In some of these areas, we do not currently have policies and procedures. It is intended that the Commission will progressively develop them and you will be sent copies (SECHR1 1988).

The critical words from a central control perspective were 'within acceptable corporate guidelines'. From reading this it might be expected that the manuals provided parameters within which line managers could exercise a high degree of freedom: that was not the case, they were highly prescriptive. Further, any notion

that local areas could contribute to the development of manuals was quickly dispelled by the advice that where policies did not exist, the SECV would develop them and forward copies to line managers. To return to the first point – the extent to which the ‘guidelines’ were prescriptive – the following examples are drawn from the three manuals.

Volume 1, Employee Relations (SECHR1), specified the role of the Employee Relations Department (ERD) within the Human Resources Directorate. On policy formulation matters the Department was centrally focussed. However, in a *prima facie* departure from the past, the ERD role included the facilitation of devolution through training and the provision of an advisory and support service to line managers. To support this devolution, line managers were charged with implementing corporate principles and policies and addressing matters of concern raised by employees within their sphere of operation (SECHR1 1988, A1.4).

However, the Volume 1 ‘guidelines’ within which managers had to operate were quite narrow. For example, included in dispute settling was a decision tree in the form of a series of questions for line managers to answer prior to taking action. It concluded with the direction that any dispute, which involved the threat of industrial action, should be referred to the ERD for consultation (SECHR1 1988, A1.4). While emphasising the independent role of the line manager, the manual then outlined procedures to reduce this independence when dealing with award matters, demarcation, stop work meetings, industrial action and discipline. In each case a comprehensive step-by-step approach was presented with constant reminders on when to contact the ERD. This was an attempt by the SECV to devolve more responsibility to line managers, but it was tentative, and many of the old central controls still operated.

The second volume, Employment (SECHR2), was even more prescriptive, perhaps to avoid legal or industrial action if line managers acted outside ‘guidelines’. This Volume covered all employment matters from recruitment, appointment to new positions, hours of work, retirement and death. There was almost no scope for local

departure from the 'guidelines', which in reality were requirements. Terms such as 'must', 'require' and 'shall' permeated the entire document. For example, although employment appointments could be made on the delegated authority of the Chief General Manager, there was little scope to exercise discretion. The Manual prescribed interview panel composition, how position descriptions should be worded, selection criteria and shortlisting processes, interview questions and rating for relative efficiency. This centrally prescribed process, had a further safeguard so far as objectivity was concerned – the right of appeal by an aggrieved applicant to a separate body. The principle (though unstated) aim of this Volume was to assure objective and consistent results. Overtly at least, there was little scope for line managers to depart from the guidelines to, for example, weight potential above experience when selecting staff.

The third volume, Training and Development (SECHR3), embraced all training and development activities including training needs analysis, performance review, scholarships and educational assistance. This was again a most prescriptive volume that at the outset described how the 'SECV Training Model' worked. In essence, that model was one where training and training needs development were part of a 'total systematic approach'. Training needs analysis was described as:

An objective driving process, which seeks to clarify needs and priorities for achievement of specified measurable performance targets. It is a management tool, which can therefore be useful for many purposes. The consultative or participative approach to implementation of the model is helpful in ensuring employees 'ownership' of the end result. The end product is a training plan which links desired performance improvements to work targets and objectives (SECHR3 1988, 3).

Again the process set out in the Manual imposed quite stringent requirements on line managers. For example, a form was provided that had to be completed for all performance reviews other than senior officers; the process included a grievance procedure for dissatisfied officers. In the case of scholarships and study awards these were allocated by the Human Resources Directorate based on line management nominations. As was the case with Volume 2, there was some devolution but line

managers were in large part merely conduits of central policy. 'Guidelines' were in reality quite strict process requirements, with clear grievance procedures available to employees who felt that they had been denied an equitable process.

With their emphasis on equity, objectivity and narrow guidelines the three volumes were in line with the traditional bureaucratic management approach. However, some of the rhetoric and certain of the practices were in line with devolution and a more 'organic' management approach – which, while tentative, was at odds with practices that had prevailed up to the mid 1980s. These were clear instances of the SECV attempting to make itself less bureaucratic, but struggling to throw off the bureaucratic ways of the past.

Institutionalised Demarcation and Work Practices

While the three Volumes included hundreds of pages of policies, processes and procedures, Volume 1 included comprehensive details on salary and wage rates, common employment conditions and award conditions. Those remuneration rates and employment conditions were not discretionary, they were provided to line managers for information and reference. It is enlightening to contrast such terms and conditions of employment with the push for devolution and commercialisation. That contrast reinforces the magnitude of the task that SECV management faced in attempting to change the organisation.

In 1988, 19 unions/associations covered SECV employees (SECHR1 1988, A1.5). The work practices associated with many award conditions were impediments to the development of a multi-skilled work force in a flat hierarchy, which was one of the lynchpins of SECV commercialisation rhetoric. Demarcation, and extra pay for variations from normal activities were common, as were a significant number of graduations of pay scale within position classifications.

A striking example of pay scale graduations is found in the position of Electrical Operations Officer, Grade 1 starting at \$509 per week and Grade 9 finishing at

\$734.30 per week. The nine grades covered some \$225 per week, in addition there were increments within a number of the grades and very little difference (if any), between the top of one grade and the bottom of the next. Such graduations were a clear prescription for employees to progress from Grade 1 to Grade 9 over time as a reward for service, with consequent cost impacts not necessarily being matched by improved productivity. Other instances of multiple grades within a classification were Commercial/ Administrative Officer, ten grades from \$417.30 to \$720.60 per week, Draftsman, seven grades and Technical Service Officer, seven grades. In the 'Supervisory Division' many graduations were also the norm with seven grades of Supervisor on pay scales from \$470.40 to \$776.30 per week (SECHR1 1988, B17).

In addition to many pay scale graduations, 'career scales' were also available as a reward for service. A Commercial/Administrative Officer's Grade 1 could progress from \$369.90 per week to \$445.30 per week over a ten-year period. Meter Readers could progress from \$376.80 per week to \$456.10 per week over ten years, while Scientific Officers could move from \$443.80 to \$598.20 over six years. Similarly, in the 'Professional Division' there were 'career scales' based on years of service for each of the 'professions' quite apart from the prospect of salary increase as the result of progression through grades. A further feature of the 'career scales' in relation to 'professionals' was a distinction between diplomats and graduates with for example, a first year architect diplomat receiving \$443.50 per week while graduates commenced on \$462.90. This persisted through to the fifth year of service with weekly salaries at \$561.30 and \$598.20 respectively (SECHR1 1988, B110). The starting salary relativity was maintained while the actual competence of employees may not have been reflective of that relativity, the focus was on qualifications, not on what the individual produced.

The potential for progression through a number of grades within a classification, combined with such 'career scales', meant that the SECV had institutionalised employment cost increases quite apart from National Wage Case decisions or other externally determined increases. Such career scales were of course, in line with the traditional bureaucratic approach and were available not so much as a reward for

good performance but as an entitlement for adequate performance and not making mistakes.

However, 'allowances' and 'conditions', while not necessarily peculiar to the SECV, added an extra dimension to form an 'as of right' pay increase culture. For example, under the Plumbing Industry Award leading hands were paid an additional weekly amount on a *pro rata* of how many people they supervised. An extract from the Plumbing Industry Award sets this out:

Leading Hand [supervision] rates

In charge of not more than 1 person	\$ 9.30 per week
In charge of not more than 5 persons	\$21.20 per week
In charge of 6 and not more than 10 persons	\$26.70 per week
In charge of over 10 persons	\$35.90 per week

(SECHR1 1988, 33).

Other allowances for SECV employees included, 'carrying dirty material' 19 cents per hour, 'cleaning brickwork' 30 cents per hour, working in 'cold places' 32 cents per hour, in charge of first aid cupboard \$3.00 per day, 'handling money' was a sliding scale allowance from 80 cents per week for 'handling' less than \$20.00 to \$9.00 per week for 'handling' over \$2000. Further, working on a power station construction site commanded up to an additional \$51.15 per week (HRMVI 1988, B3). Common conditions applying to all SECV employees, as opposed to those pertaining to particular categories of employees, covered by different awards included some 54 pages in Volume 1 from Hours of Work to Damage to Clothing, Equipment and Tools (SECHR1 1988, C).

With so many awards and concomitant conditions and allowances built up over decades, an important part of SECV culture was the notion of extra pay for extra work. SECV pay was not related to output but, in line with Weber's principles, it was a precisely determined reward for qualifications, experience, level of responsibility and length of service. It is also noteworthy that the notion of 'staff'

and 'wages' categories of employees, consistent with Mintzberg's (1979) machine bureaucracy, persisted up to 1988 when the three volumes were released.

When announcing the introduction of new guidelines to streamline the appeals and grievance process, employees were advised that the most significant of the changes introduced 'is that all SEC employees, both staff and wages, are now eligible to appeal to the Grievances Appeals Committee' (SECN339 1988, 5). McDonald remarked at the time:

The changes are aimed at adding teeth to the system so that it runs within given timeframes. The interim guidelines over the last three years tended to be a series of general rules which could be either interpreted or ignored (SECN339 1988, 5).

He also emphasised that the review 'clarified and strengthened' management's commitment 'to a system for the impartial and independent review of decision making' (SECN339 1988, 5). Here was an instance of tightening controls to reinforce impartiality in the traditional Weberian sense.

It seems as though the SECV was caught between the rhetoric of what it would like to do and the reality of input and process focused institutionalised work practices and conditions. It needed to break this nexus if it was to reduce its bureaucracy and if significant productive efficiency gains were to be achieved. The catalyst to transform the focus on inputs and turn organisational attention to outputs and reward for performance was the Structural Efficiency Principal.

The Structural Efficiency Principle (SEP)

The Labor Government and SECV management had 'bought' industrial harmony in the early to mid-1980s through a toleration of overmanning, poor work practices and pay increases not linked to productivity improvement. However, the 1980s was also more generally a period of industrial peace compared with the 1970s. Over the 1980s working days lost per 1000 employees, a standard measure of industrial

disputation for Australia and the SECV, fell dramatically. The major contributing factor is generally considered to be a series of 'Accords' between the Commonwealth Government and the Australian Council of Trade Unions (ACTU) commencing in 1983. In simple terms, the Accords provided a basis for unions to align wage claims with the Government's inflation and employment targets. In return the Government guaranteed economic policies which ensured a 'social wage' (BIE 1996).

A feature at the time was seen to be the close philosophical relationship between the Commonwealth Labor Government and the ACTU. It was this relationship that facilitated the Accord process and other joint attempts to address the key problems with the Australian industrial relations system in the mid-1980s. Those key problems were identified by the BIE (1996, 63) as: many different awards, institutionalised restrictive work practices, many trade unions representing different employees and not linking remuneration to performance.

It is significant that the very criticism levelled generally at the industrial relations system was able to be applied specifically to the SECV. What was different by the late 1980s, were new tools available to management to address these issues. These new tools were the result of a 1987 move by the Australian Industrial Relations Commission (AIRC) to establish a two-tiered wage fixation system. The first tier was an initial universal wage increase, to be supplemented by further, second tier, increases as a reward for productivity improvements which met the AIRC restructuring and efficiency principle (REP).

The REP had a primary focus on reducing or eliminating restrictive work practices. Cost savings arising from application of the REP, qualified as a basis for productivity gains and hence for wage increases under the second tier. To ratify such gains, employers and unions had to submit agreed award changes to the AIRC (BIE 1996, 66). Significantly, second tier agreements could be arranged at the enterprise level and this was the case in most instances (McDonald and Rimmer 1988, 482). The SECV was at last in a position to tackle many of the restrictive work practices that

had plagued it in the past. The SECV position was also much stronger than had previously been the case, as the two tiers provided an orderly framework for cooperative negotiation, as opposed to the adversarial framework of the past.

In 1988, the AIRC went further than the REP and introduced the SEP, which made wage increases available to unions which were prepared to fundamentally restructure their awards. In 1989 the AIRC further developed this restructuring process, by listing specific reforms aimed at providing greater flexibility on such matters as hours of work and job sharing.

While its impact was largely outside the period of commercialisation, commitment to the SEP was embraced by the SECV in 1989. One outcome of which, was the previously mentioned intention to reduce the number of employees by 20 percent over a three-year period. Significantly, the words used by the SECV left little doubt that it saw a need for fundamental organisational change in addition to the dramatic reduction in employee numbers:

The Structural Efficiency Principle offers a unique opportunity to initiate fundamental change within the SEC. Our challenge is to re-assess the way work is organised, what is required of our employees, and the way the organisation is structured, and to develop a more productive organisation (SECAR 1989, 8).

By 1989 the SECV had available to it the REP, the SEP, Commonwealth Government policy and an AIRC position that laid the foundations for significant improvements in work practices, reduced demarcation disputation and a more flexible workforce. This had not previously been part of the industrial relations process.

Now the opportunity existed for organisations like the SECV to focus on outputs, on rewarding productivity improvements and on 'win-win' industrial relations outcomes. It follows that from 1987-88 onwards, significant changes could have occurred within the SECV, given the wide ranging inefficiencies that had existed for

many years. It is also suggested that in the absence of such fundamental structural reform, that it was a monumental task for SECV management to address inefficient work practices in an adversarial system. This is not to suggest it should not have been attempted, but to acknowledge the difficulty of the task, by reference to the size of the changes needed to simplify it. It also helps to explain why so little was done in this area up to 1988. It was just too hard for the SECV, it was much simpler to absorb the costs of inefficiency and reduce the risk of power restrictions resulting from industrial disputation and pass on higher costs to the consumer. From 1987/1988 the SECV had new tools to meet these challenges.

Community Consultation and the Richmond to Brunswick Power Line Dispute

The SECV operating environment in the mid to late 1980s was characterised by its commercialisation initiatives, the dilemmas associated with ambiguous Victorian Government energy policy and the considerable pressure from the Commonwealth Government for GBEs, including the SECV, to improve performance. However there was simultaneously pressure of another kind on the SECV: community reaction and political fallout associated with a proposed Richmond to Brunswick power line. Not only was this a test for the SECV so far as community consultation was concerned, it was also a public exposure of its often repeated commitment to its customers and to customer service.

What in many ways should have been a straightforward issue, developed over the 1980s into significant confrontation and a pragmatic test of SECV commercialisation rhetoric regarding the customer. This was the most prominent of the SECV community interfaces under Labor and represents an excellent example of SECV style and approach in managing this important element of its operating environment.

The community influence that Trethowan (1991) identified as an emerging issue in the 1970s continued to develop in the 1980s and is exemplified by the Brunswick to Richmond powerline dispute which brought the Commission into open conflict with the community and on which Gibson (1996, 3) remarked 'management never really

grasped the political sensitivity of the issue'. The dispute had its genesis in an SECV proposal in the early 1980s to improve electricity supply to the Melbourne central business district via the development of high voltage (220,000 volts) overhead power lines from Brunswick to Richmond along the Yarra River and Merri Creek waterways (PRPD 1989, 14; PBRC 1991a, 13). In 1983, the NREC reported to Parliament that it had considered the appropriateness of the project, and that it should proceed. Following a period of public consultation conducted by the SECV at the Government's instigation, the Minister for Industry, Technology and Resources issued a paper in 1985 which, *inter alia* raised matters of community concern with the project. After further consultant studies and an Environment Effects Statement the Government in 1986 approved construction of a partial overhead line and in 1987 approved an overhead line along Merri Creek (PBRC 1991a, 13).

This approval caused considerable public consternation and while construction commenced in January 1988, it was suspended in March 1988 because of public protests on site (PBRC 1991, 13). In an attempt to quell public concern the Government appointed a Power Line Review Panel to re-examine the project and the impact on the local environment of the proposed route (PRPD 1989, 13; PBRC 1991a, 13).

The SECV was openly criticised for its role in managing the project in the Victorian Parliament when in March 1988 Stockdale, the Shadow Treasurer, stated in the Assembly:

Concern has been expressed for a long time that the SEC is the 'ugly Victorian' and that it has behaved in a dictatorial and high handed manner towards ordinary Victorians, even in relation to their own properties. The current well known incident involving the environmentally insensitive SEC – the Richmond to Brunswick power line – is well documented. The Commission has simply churned ahead with a policy with no regard for the impact it has on the lives of ordinary people (Stockdale 1988, 487).

There was a strong political as well as a community dimension to a range of aspects of the power line issue. In this instance, critics of the bureaucratic form would

suggest that the engineering oriented and paternalistic SECV did not learn from its past mistakes when it had been strongly criticised for inadequate consultation. As Culley, SECV Corporate Planning Director from 1983 to 1987, observed, the Richmond to Brunswick power line dispute, was an example of the SECV's 'engineering approach' to community consultation. He contended that the SECV was not committed to consultation (1991, 144).

Cain cited the handling of this dispute through the Power Line Review Panel as a positive example of his Government's commitment to consultation:

When we ran into political trouble on the SEC proposal to build a powerline through the Merri Creek valley, between Brunswick and Richmond, a consultation process set up by David Scott and Mary Crooks proved highly successful (Cain 1992, 278).

He declared this as an example of his Government's preparedness to consider issues in great detail and to respect the views of opposing groups. In contrast, he criticised the SECV approach:

As the Government's authority declined the power of the agencies grew in almost direct proportion. In some cases, like the SEC on the Richmond-Brunswick powerline issue, arrogance crept back in (Cain 1995, 280).

Elsewhere Cain had proposed that his Government was held in ALP circles as 'a shining example' of how interest groups and party policy groups were kept informed of intentions. He observed 'we certainly had a much more detailed and sophisticated process of policy development and implementation than other Labor Governments' (Cain 1992, 278).

However, in a demonstration of the difficulty facing the SECV on this controversial issue and perhaps a snapshot of policy development issues facing a major utility under Labor, Cain (1995) later wrote:

In March-April 1988 we had a further very clear example of the party being disloyal to the Government on a significant issue. It was lack of loyalty, accompanied by a lack of realism and fortitude in some party members to see an issue through. I refer to the Richmond-Brunswick power line where the Government was, on the best advice then available from the SEC, proposing to allow a power line to be built along the Merri Creek Valley in part between Richmond and Brunswick (Cain 1995,107).

Further to this SECV advice, Cain said that the Review Panel found that 'the SEC had advised the Government badly...the cost difference between an underground route for the power line and the overhead... route was far less than had been stated by the SEC over six or seven years' (1995, 107). Cain explained that the Cabinet, Caucus and the Labor Party generally had decided that additional expenditure to underground the power line was not justified. However he claimed, three Federal Labor Ministers, Clyde Holding, Gerry Hand and Brian Howe, 'all caved in to pressure in their electorates and were prepared to go public in outright opposition to the Government on this issue'. He also claimed that local Labor members of the Victorian Parliament, Tony Sheehan and Demetri Dollis, the Members for Northcote and Richmond respectively, 'threatened to go public in opposition to the Government and this threat was made with the concurrence of key people in the Left faction' (Cain 1995, 107-108).

The issue was in the public arena, the SECV was at the centre, the Government was divided and local Federal and State Labor members were prepared to oppose the Victorian Government. The dispute also had much wider implications than the SECV and aggrieved local residents. In many ways it was a catalyst for a broader agenda to be publicly aired. In particular, it became a focus for those generally concerned with urban environmental issues under Labor. As Economou argued:

The complexity of urban environmental matters was exacerbated by the propensity for policies pursued by ...departments and authorities to profoundly affect the urban environment. Nowhere was this more vividly demonstrated than in the Richmond-to-Brunswick power line controversy of 1988, arguably one of the most celebrated breakdowns in relations between Labor Governments and the environmental movement during the period (1992, 107).

Far from blaming the SECV Economou was unequivocal in attributing the 'political costs' of the dispute to Cain's announcement of an independent review panel to investigate the matter, and the process employed:

Here the shortcomings of the Government's approach to urban issues came into sharp relief. Had an evaluation process replicating the careful, long-term analysis employed by bodies such as the LCC in regard to land use been employed in this issue, the Government may well have avoided the political costs incurred in becoming involved with community-based opponents to the power line (1992, 107).

The Independent Review Panel was chaired by David Scott who had stepped down as an SECV Commissioner to undertake the review. In 1989, after considerable community consultation, the Review recommended that, rather than use overhead lines, the SECV should underground the 220,000 volt cable from Brunswick to Richmond, and that the Yarra/Merri waterways should not be used for an overhead line. This was a more costly option and was not favoured by the SECV which had promoted the overhead lines as a cost effective method of providing secure supply (PRPD 1989, 13-15).

However, the issue for this thesis was not so much the outcome of the Review, which in 1989 saw a pressured Government endorse the undergrounding recommendation (PBRC 1991, 13), but the Panel's views of SECV management of the process. The Panel's report devoted considerable attention to how the SECV might have managed consultation to mitigate adverse community reaction. It was also mildly critical of the Government's ad hoc policy approach to electricity supply (PRPD 1989, 50-51).

The Panel was unequivocal in its criticism of the SECV approach to consultation:

Within public sector agencies such as SECV... there does not appear to be adequate mechanisms for understanding the dynamics of local political processes, for communicating effectively with people in their local community (PRPD 1989, 51).

The Panel also reproduced an extract from a 1983 consultants report to NREC, prepared by consultants British Electrical International (BEI), on the Richmond to Brunswick powerline. The Panel prefaced the BEI extract with the salient reminder that, so far as its concerns with the powerline dispute were concerned, 'it is worth recalling that many of these ideas already featured in the BEI consultants report to NREC in 1983'. The extract in question was:

We believe that an appropriate community response to the environment is best produced by an informed dialogue between SECV, Government, Municipalities and the public. Elsewhere, we recommend that SECV be required to publish a long-range plan which would identify the ...the electrical systems of Melbourne up to the year 2000. This would then serve as a catalyst for informed discussion (BEI 1983, 12.1)(PRPD 1989, 52).

The inclusion of this extract and its date was a pointed reminder the SECV had done little to redress this important element in its operating environment since 1983.

The Panel then went on to recommend;

The Victorian Government needs to consider carefully the process and usefulness of ad hoc inquiries and short lived review panels in the area of electricity development; with attention to improving (possibly through DITR) continuity of information, expertise and consultation processes as well as considering the establishment of a system of periodic, open public policy review (PRPD 1989, 53).

Considering the Review Panel was chaired by a former SECV Commissioner (who was to return to the SECV board at the conclusion of the Panel's work), this was strong criticism of the Government.

The evidence suggests that in the high profile case of the Richmond to Brunswick powerline that the SECV did not consult with its 'customers', but rather, carried on with a paternalistic and arrogant management approach, as in the past. It could be argued that the customer focus referred to constantly throughout this commercialisation phase did not cover such issues and public consultation programs. In contrast it seems reasonable that the much vaunted customer orientation should

also have embraced those disaffected by SECV decisions— on this issue the reality did not match the rhetoric.

The SECV and Key Government Decisions and Directions Under Commercialisation

While working in an ambiguous policy environment can pose difficulties, the SECV seemed to accommodate this so far as the Victorian Government's main decisions and directions under commercialisation were concerned. Those decisions related to power station planning, demand management and energy conservation and the continuation of the Government's debt over equity preference.

Power Station Planning - The Decision to Proceed on Schedule with Loy Yang B Units 3 and 4

Coinciding with the SECV thrust for commercialisation and greater efficiency was widespread criticism of its over capacity and increasing concern about the impact of debt. In addition, there was a growing call for fundamental change in the Australian electricity industry. In this volatile environment the Victorian Government confirmed in 1988 that the SECV was proceeding on schedule with the construction program for an additional 1000MW of capacity in the final two Loy Yang B units. Further, the decision was also taken to fund the construction with debt and for construction to be of 500 MW units rather than more readily constructed and hence more flexible, smaller units. In view of the analysis presented in this research regarding gross excess capacity, this is an extremely difficult decision to fathom from both an SECV financial and operational perspective. However, from a political and broader economic viewpoint the rationale becomes clearer.

This political and economic perspective was well summed up by Keith Hamilton, the Labor Member for Morwell, in the aftermath of the 1988 Victorian election:

One cannot overestimate the importance of the State Electricity Commission of Victoria to the Latrobe Valley. It provides jobs for approximately 10,000 workers and supports much of the local business, commerce and industry. During the election campaign the Government announced that it would proceed with the extremely important Loy Yang B-3 and B-4 stages of the major power development in the area. This boosted the confidence of local business, commerce and industry in the belief that the Government cared for the Latrobe Valley (Hamilton 1988, 401).

The political implications of the decision appear obvious; it was a positive announcement which favoured Labor prior to the 1988 election. The opposition pursued the Government on the cost and benefits of the decision. The Government response was in the form of a Ministerial Statement from Evan Walker (1988a), Minister for Industry, Technology and Resources. The Minister's Statement was concerned with electricity supply options to follow Loy Yang B Units 1 and 2 beyond the mid-1990s, and was the formal Government response to an NREC (1988) inquiry that it had called for into this subject. The NREC had commenced its inquiry into long-term electricity requirements, including consideration of Loy Yang B Units 3 and 4, in October 1986 and concluded in April 1988. A discussion paper by McColl (1987) commissioned by NREC which *inter alia* considered evidence to the inquiry found that there was no need to take a decision on further generating capacity 'for some years' and that a deferral would permit further information to be gathered on supply alternatives and demand trends (1987, 30).

Walker stated that, while the NREC was asked to report on the most appropriate power supply options after Loy Yang B Units 1 and 2, that it instead proposed a process for the Government and the SECV to develop a long term supply strategy. Walker endorsed the flexibility inherent in the NREC proposed and the need for a power supply strategy to 'meet a range of uncertain futures' (Walker 1988, 769). He advised that, as a result of one NREC recommendation, he had requested the SECV to produce an annual Electricity Development Strategy and Implementation Review (EDSIR), with the first report due by the end of 1989. While noting that NREC had wanted to go further than its initial brief, and examine demand management and

energy conservation issues, as part of balancing electricity supply and demand Walker said:

The SECV and DITR have been directed to undertake a joint project to evaluate the potential of using demand side measures in meeting Victoria's future electricity requirements (1988, 770).

This joint SECV/DITR Demand Management Development Project (DMDP) was considered by Walker to have 'the potential to substitute for an inquiry' and was required to report to Walker by June 1989 (1988, 770). Having set the scene regarding work on future supply flexibility and demand side issues, Walker turned his attention to the NREC 'recommendation' to proceed with Loy Yang B units 3 and 4 as Victoria's next base load power station.

The NREC had recommended this course of action 'on the basis of the cost comparisons presently available to the Committee and the social and employment contributions to the Latrobe region and Victoria' (Walker 1988a, 20). The NREC also recommended that the timing of the construction of these units should be flexible, and that prior to authorising expenditure the Government, 'should ensure that SECV reviews the capital and operating costs of both Loy Yang B3 and B4 and other viable power supply and demand side options' (Walker 1988a, 21). When taken together the NREC recommendations on Loy Yang B3 and B4 were certainly tempered by, if not conditional on this final step. Further, the work of McColl (1987) had made it quite clear that there was no need to take a decision at that time.

Walker responded to NREC's complementary recommendations with a commentary on the likelihood of 'downward revisions' on capital and operating costs. He stated with regard to the two NREC Loy Yang recommendations:

These recommendations have already been accepted by the Government and an announcement was made in the Latrobe Valley in September 1988 that Loy Yang B-3 and B-4 would be the next base load power station. This commitment to Loy Yang B-3 and B-4 has been made with the confidence

that joint SECV/Union studies and actions will ensure its cost competitiveness with other supply options (Walker 1988a, 21).

The SECV in evidence to the NREC inquiry had expressed confidence in its capacity to reduce costs and thus make the final two Loy Yang B units more economically attractive (McColl 1987, 29). But within two years it was promoting the sale of units 1 and 2 and had ceased planning work on units 3 and 4. Perhaps the SECV saw an advantage in supporting the Labor position in 1988 but by 1990 was reading the political landscape differently. In any event the SECV position on Loy Yang B, in 1988 and in 1990, was in line with a body attuned to its operating environment and acting accordingly, not retreating and looking to the past, as critics of bureaucracy would predict.

The Government announcement on Loy Yang B units 3 and 4 may not have been timed to gain political advantage for Labor, but it seems highly likely that it was, particularly as Labor had taken a similar politically expedient decision in relation to Loy Yang B units 1 and 2 in 1985. Further, an announcement to proceed, combined with the decision not to have the NREC review demand side issues, but to leave this to the SECV and DITR in combination, suggests that Walker and the Government were setting the scene for Loy Yang B3 and B4 to proceed expeditiously. The SECV had a history, a preference and a vested interest in big power station projects; DITR was interested in economic development and employment. The SECV/DITR partnership was an unlikely combination to objectively review demand side and conservation issues.

The SECV Decision to Ignore Demand Management and Energy Conservation

One of the key Labor policy platforms in 1982 was for the SECV to employ demand management techniques to ensure better use of its productive resources and to conserve energy. Demand management at its simplest level has two main thrusts. The first is concerned to employ techniques to encourage consumers to spread their demand and thereby reduce peak loads on the generating system. It follows, that success in this field reduces the maximum coincident demand and thus reduces

generating capacity requirements, and consequently the cost of generation falls as expensive peak load generation is reduced. The second aspect of demand management was to encourage energy conservation and to foster a reduction in total demand. Again, this reduces the requirement for generating capacity. However, conservation leads to short to medium term cost increases, as electricity generation with high fixed costs and low short run marginal costs produces a lower average cost as demand rises. In this case it follows that energy conservation may lead in the short to medium term to increased unit costs resulting in either higher electricity prices or reduced profitability.

Putting aside certain Annual Report rhetoric, the reality is that the SECV was not committed to the energy conservation aspects of demand management. This view is supported by the EBRC (1990, 96), which expressed concern about the SECV's willingness to embrace demand management, particularly conservation measures on which it described the Commission as 'unnecessarily tardy'. Further, when commenting on the joint SECV/DITR Demand Management Development Project (DMDP) which produced a final report on demand management strategies in January 1990, the EBRC concluded that many of the proposed measures could have been introduced years earlier (EBRC 1990, 96). The NREC had also been critical of inadequate SECV attention to demand management and had called for the SECV to 'investigate the potential' to expand its existing programs and 'to develop new programs' (Walker 1988a, 8).

The EBRC proffered 'three good reasons why there may be an intrinsic bias against energy conservation within electricity utilities': engineers like to engage in major constructions, managers like organisational growth and conservation is bad for the bottom line (EBRC 1990, 97). This raises questions about the Government's commitment to conservation. If the SECV did not achieve results on demand management due to the 'old culture', why not foster new people with a new culture into the SECV hierarchy? Further, the three EBRC 'reasons' for bias against conservation were not peculiar to the 1980s. Why had the Government not taken action to force energy conservation and other demand management techniques? The

evidence suggests that Labor was more committed to economic development, and to construction of SECV capacity, even on borrowed funds, rather than to conservation. The demand management thrust of Labor in opposition diminished in the early managerialist years under White and was certainly not a priority under Ministers Fordham and Walker. It is also noteworthy that the joint effort that produced the DMDP report was, according to the EBRC, dominated by the SECV (EBRC 1990, 97).

In a pointed criticism of the SECV during the 1980s the EBRC (1990, 98) recommended that the Government should monitor SECV demand management performance; the implication being that the SECV could not be relied on to do this itself. This again raises the question – what was the Government doing from 1982 to 1989 so far as controlling and directing SECV activity in this area? Particularly when the Government was prepared to be prescriptive on a range of issues. The answer is that very little was done, which supports the earlier argument that the Labor Government's commitment to demand management, and energy conservation in particular, was like the SECV's, more rhetoric than substance.

A contributing factor was almost certainly the adverse commercial impact of reduced demand. The EBRC acknowledged this when it reported that the:

SECV has argued that one of the key problems facing demand management - particularly in the short term - is the likely adverse impact on SECV profitability and thence on unit prices for electricity (EBRC 1990, 107).

The EBRC accepted this and recognised the need for the SECV to increase tariffs to cope with aggressive demand management. Importantly, this was a strategy that would have run counter to Labor's policy of constraining tariff increases and to its claims for abundant cheap electricity as a foundation for economic development. This was a further reason why the SECV's disregard for Government energy policy positions was not pushed by Labor.

The EBRC also criticised the SECV for its attitude to its statutory requirement to foster co-generation, a proven energy conservation process. When referring to a 1987 'Co-generation and Renewable Energy Incentives Package' developed by the SECV, the EBRC queried why the Package was produced with an uneconomic 10 MW cap. It saw two explanations: co-generation was encouraged to foster a demonstration role or 'a more cynical interpretation would be that it was designed to create a veneer of activity in an area which the SECV really thought to have little short/medium term merit' (EBRC 1990, 111).

The EBRC was very critical of the SECV making decisions on generating capacity without fully considering co-generation: 'once again, the Committee has cause for regret that the SECV has been so tardy in acting on the statutory obligations it was given in 1983' (EBRC 1990, 111). The EBRC was so uncertain of the SECV's commitment, that it went on to recommend controls, via a monitoring program, to ensure that it was not discriminating against potential co-generators in favour of its own power generation (EBRC 1990, 112).

It seems that at the most fundamental level the SECV read the political landscape and despite rhetoric to the contrary displayed a lack of genuine commitment to Government policy and to its legislative obligations. This was done by largely ignoring such factors as conservation, demand management and co-generation and ensuring that they were an unimportant part of SECV operations. The EBRC impatience with the SECV was quite clear throughout its report as previously outlined. This SECV preparedness to overtly acknowledge Government policy, while working to disregard it, raises the issue of the extent to which the SECV bureaucracy employed this as a standard tactic. This technique of overt compliance but actual disregard was employed with performance measures under managerialism. Importantly though, the Labor Government did not push to SECV to comply with this legislation or to promote conservation. It caused DME to amalgamate with DICT to form DITR and to a certain extent formed a department with conflicting objectives. That conflict was resolved in favour of the business oriented thrust of

DITR at the expense of the conservation and energy agency management thrust of the old DME.

While the EBRC restricted its criticism to the SECV for its lack of attention to its statutory obligations it was also the case that the Government had lost interest in enforcing those obligations as a priority. The Government had changed direction from 1982 and was concerned with economic development and cheap and abundant energy was part of that thrust. Both the SECV and Labor had a vested interest in largely ignoring conservation aspects of demand management. This was because the Government's interest was in economic development and because the SECV's was in building power stations and generating electricity.

Consequently, it is important not to be critical of the SECV 'decision' to ignore Government policy and legislative requirements as the Government had the power to force the issues of conservation and demand management and chose not to. It follows that EBRC concern about lack of change in the SECV since 1983 needs also to be tempered with the knowledge that the Government impetus for the SECV to adopt demand management and conservation measures had dissipated by the mid-1980s. The SECV was pleased to accommodate this and move on as to commercialise itself without the impediment of demand management objectives competing with its core objectives. In, what in many ways was the final word on the subject, the SECV reported in 1992 that there was 'little need for either Demand Management or new generation to supplement existing resources before the turn of the century' (SECAR 1992, 68). In largely ignoring demand management and conservation requirements the SECV monitored the political arena and behaved accordingly, while protecting its 'bottom line'.

The Political Impact of Debt Versus Equity Preference

While the SECV financial position of the late 1980s was an improvement over the years from 1985 to 1987, the spectre of debt with its associated finance charges still loomed large. Finance charges in excess of \$1 billion per year was the largest single

expense item faced by the SECV in 1989, yet there was no apparent strategy in place to retire debt to mitigate its impact. Further, Commonwealth Government and community concern over public sector debt levels was continuing to rise across Australia and represented a serious political threat for Labor in Victoria. Against this backdrop, the SECV's below CPI pricing regime was a bold strategy by the Labor Government. With a relatively minor price increase in percentage terms, the SECV had potential to increase revenue, reduce debt and finance expense and thus significantly increase net profit over time.

This rather obvious potential had been formally recognised some years earlier by John Nolan, the then SECV Director of Finance and Administration, who commented:

The facts remain that we are a highly geared business and a lot of our expenditure on capital is financed by debt. When you have interest rates at a 60 year high... And we are pricing aggressively, with our prices below CPI, then that puts a lot of strain on the organisation (SECN 318 1986, 3).

These comments in September 1986 were just as relevant in 1989. Nothing had been done in the interim to lessen the 'strain' of high gearing, including the 1987 formation of the Victorian Equity Trust (VET). The VET was described by Smith, as an important initiative which 'grew out of discussions earlier this year between the SEC and the Government on the need to reduce our reliance on debt financing' (SECN 328 1987, 3).

The VET was a vehicle devised by the Victorian Government to raise funds for public utilities including the SECV, G&FC, MMBW and the Portland Smelter Unit Trust, with the utilities in turn paying VET unit holders a proportion of their PAD. The unit holders had a right to sell their units to the VEDC. In reality the VET was a State Government contrivance to overcome Commonwealth controls on State borrowing limits, and as units were secured, it was not true 'equity' finance. Not surprisingly, the Commonwealth Treasurer determined that funds raised via the VET were considered to be borrowings and therefore had to be within the loan limits set

by the Commonwealth. The most intriguing aspect of the VET experiment was rather than looking to reduce debt, Labor in Victoria was looking at innovative methods to increase it.

This debt preference was attacked by Stockdale in an Address-in-Reply to the Governor's Speech in 1987, where he remarked *inter alia*:

Not content with mortgaging the future of the State, the Government has also forced extravagant debt burdens on to the major State authorities. For example, I refer to the disastrous debt position of the State Electricity Commission. Like the growth in the State debt, it represents deliberate and conscious policy decisions taken by the State Government, ... forcing major statutory authorities into an increased reliance on debt as a means of funding their activities (1987, 217-218).

Later that year Jolly, the Treasurer stated 'as the private sector is so strong in the investment area, there is now no need for the Government to keep up the high levels of borrowing that were necessary when it came to power' (1987, 1519). Jolly proposed that the 'winding down of the capital expenditure program will mean less borrowing in real terms' (1987, 1519). It was significant that Jolly attributed a reduced future reliance on debt, not to the employment of other forms of finance or a debt retirement program, but to reduced capital expenditure requirements; he still linked debt and capital expenditure in the strategic sense.

Further, Fordham the then Minister for Industry Technology and Resources and Deputy Premier, remarked in relation to low tariffs 'I assure honourable members that my colleagues holding this portfolio in other States are conscious of Victoria leading the field in holding down energy prices in this country' (1987, 670). It seems that while debt was a concern to the Government, one of the principle means of diminishing it in the SECV case, increased tariffs, was also not acceptable. High debt and low tariffs were part of Government policy and in the case of the former were subject to wide and concerted criticism.

In 1988 Stockdale stated:

I am not attacking the State Electricity Commission or its management, but I am pointing to the imposition upon the management of the Commission of Government policies, which have been disastrous for its financial viability (1988, 487).

He went on to assert, 'the Government, as a matter of deliberate policy, pursued an expansion in debt at a time when Australia and the world faced the highest real interest rate since 1930' (1988, 489).

During the late 1980s, debt was proving to be a major issue for the Government and the SECV. Further, criticism was not restricted to the political debate, but was engaged by the wider community. Significantly, concern over debt levels was expressed by the Victorian Auditor General, a much more serious level of criticism, for it could not be dismissed by Labor as political.

It was in 1986 that debt really became an open issue for the Government with the Auditor General (AG), in his Report on the Treasurer's Statement called for future Statements to include a consolidation of inner and outer budget sectors long term debt in order that Parliament could monitor the States' financial viability (AG 1986, 42). Such recommendations and concerns with debt levels and debt monitoring are found in AG's reports for the rest of the decade. In 1990 the AG reported 'short term financing cost the State \$70 million, compared with \$6 million last year' and 'the practice adopted of offsetting interest costs by borrowing had... serious implications in 1989-90' (AG 1990, 13). Against this backdrop, in 1990, the SECV announced a 'no new debt' policy to commence in 1990/91 (SECAR 1990, 5). This policy was not aimed at retiring debt but at ensuring that it did not increase, which had obvious implications for funding Loy Yang B. This no new debt policy was introduced with Government approval and was the first strategic attempt in seven years of Labor to tackle the debt issue. By many calculations it was too little too late, but significantly it was an SECV decision designed to arrest a deteriorating financial position and it had major implications for future construction programs.

Operating Performance

While in certain respects the SECV's commercialisation phase was one of words and plans rather than action, there were also important signs of a preparedness to change and to adopt new, less bureaucratic methods of management. It is therefore important to consider operating performance, to test whether the SECV's 'bottom line' matched the claims of improvements associated with commercialisation. On balance, financial performance improved but debt was still high in 1989, also operating performance improved, albeit slowly and as part of a long established trend.

Financial Performance

The SECV's revenue grew from \$1784 million in 1985/86 to \$2414 million in 1988/89, a 35 percent increase. The contribution of 'electricity' to this increase rose from 93.3 percent to 94.6 percent. From a purely financial viewpoint attempts to find other 'business' opportunities and to engage in world wide consultancy exercises, while presenting a commercial flavour in annual reports and other such documents, was of negligible consequence.

Revenue was based on a pricing regime that held increases to below the Melbourne CPI. This was in line with 1982 Labor policy and, while desirable from political and economic development perspectives, represented a significant lost opportunity. While this pricing regime was understandable, given the euphoria and perhaps idealism of a newly elected Government, the continuation of such a policy under a regime of commercialisation and coupled with crippling SECV debt, seems to be ideology overriding common sense.

This is not to suggest that higher tariffs were justified, indeed if the inefficiencies surrounding SECV production and construction programs had been reduced then higher tariffs would not have been necessary. However, it is clear that the pricing regime was a lost opportunity of major proportions and small tariff increases would

have had major benefits and could have been politically achievable. How hard the SECV pushed the Government, if at all, to secure higher tariffs has not been possible to establish. Though Nolan did publicly comment on the pressure arising from the SECV tariff regime and, it seems reasonable to expect, that such an obvious revenue measure would have been raised with the Government.

For the financial years from 1986 to 1989 SECV expenses excluding finance charges rose from \$1139 million to \$1368 million, or by 20 percent against an inflation rate of 25.4 percent. This was a much improved performance and resulted in a profit before finance charges of \$1045 million in 1988/89 up from \$645 million in 1985/86 a rise of 62 percent. Over the same period, finance charges rose from \$605 million to \$895 million, after exclusion of capitalised finance charges. The SECV produced a net profit of \$41 million in 1985-86, \$140 million in 1986-87, \$122 million in 1987/88 and \$151 million in 1988/89. Over the same four years its Public Authority Dividend was \$80 million, \$165 million, \$100 million and \$116 million. Not only does this reinforce the adverse impact on operations of finance charges, but also points to a total PAD for the four years of \$461 million, or more than 100 percent of a total net profit of \$454 million. The PAD, together with restrictions on tariff increases, meant that the SECV was not able to retire debt from operations.

Over this time there were several significant balance sheet changes. Net fixed assets increased from \$6758 million in June 1986 to \$8279 million in June 1989. Under commercialisation, liabilities increased at a slower rate, from \$7386 million to \$8375 million. Consequently, equity increased from \$297 million to \$1031 million, which was a considerably improved position, but one that in absolute terms was not strong when related to assets. The comparatively overwhelming issue was the extent of debt, which in June 1989, was \$7.4 billion.

The 'bottom line' performance under commercialisation was marginally improved from the early managerialist years with cost control and an improved equity position evidence of this. However, the debt burden was such an influence on performance

and financial status that it dominated financial consideration of the SECV and reinforces the importance of the 'no new debt' policy.

Productive Efficiency

Over the period of commercialisation, 1986 to 1989, total employees fell by 2.3 percent from 22045 to 21551, the continuation of a slow but steady decline from 22826 in June 1984. At the same time annual sales increased from 22449 GWh to 29448 GWh. These two factors in concert lead to an improvement in labour productivity. Further, the growth in consumption reduced the RPM from 45 percent to 36 percent. However, while this does represent a technical capital productivity improvement, it was only achieved because of initial gross excess capacity. Nevertheless, labour productivity improved over the period with GWh per employee increasing from 1.01 to 1.36. Terms of Trade and TFP also improved but as part of a steady improvement from 1954-55.

This was a period of steady progress operationally. Management activity seems to have concentrated on making plans and preparing the organisation for the changes to come. Equally, in the context of Labor's policy quandary, it is important not to be overly critical of slow but positive productive efficiency improvement. The real issues that if addressed, had the potential to reduce the need for tariff increases, were overmanning and poor work practices. The SECV, with the assistance of the SEP announced its intentions to move on these related endemic issues.

Conclusion

The concept of commercialisation can be difficult to describe as it is in essence a cultural shift from public sector traditions to private sector approaches to management, without the adoption of the more autonomous corporatisation model. As a consequence, much of the evidence that an organisation has taken on 'commercial' characteristics can be bound up in its rhetoric. The use of terms such as 'customer focus', 'running a business', 'return on assets' and 'efficiency and

effectiveness' conjure up an image of an organisation which has embraced the commercial 'drivers' of the private sector. It is therefore critical to look behind such terms to discover how closely the organisational reality approached the concept of commercialisation.

This chapter has attempted to match SECV words with its actions: on several counts it can be argued that while plans were developed and attempts were made to promote cultural change towards the SECV becoming a more commercial organisation, it did not change fundamentally over the mid to late 1980s. Alternatively, a notable example of the impact of 'changes to follow' was the announcement of plans to dramatically reduce employee numbers. This proposed reduction cut across the traditional 'job for life' employment culture in the SECV, and even though it was not implemented under commercialisation, its very announcement was a major event. To reduce employment by 20 percent was a major management initiative designed to improve future efficiency and competitiveness and was also a fundamental cultural shift for the patriarchal and bureaucratic SECV.

This chapter presented other examples, such as internal consultation on devolution and the future of the organisation, of how this commercialisation period was one of making plans and preparing for change in an orderly and collaborative fashion. This steady approach was also employed with the restructure into Business Units where the old functional approach to structure was modified. While this modification included 'devolved' autonomy that was within very tight parameters under a controlling head office, the SECV did enunciate a commitment to a significantly less bureaucratic future. The bureaucracy of the SECV and its bureaucratic approach to management was under serious challenge from within by 1989.

One high profile example where actions were not in line with rhetoric was one of the key elements of SECV commercialisation, customer focus. The Richmond to Brunswick power line was presented as an example of how, in practice, the paternalistic SECV attempted to push on with what it thought was best. This was in the face of heated and concerted opposition, which the SECV did not treat seriously

until it was too late. Arrogance, paternalism and best engineering solutions, all could be used to describe this example. In what was an otherwise concerted effort to improve customer focus, the task of making the SECV less bureaucratic and more responsive to its environment proved difficult at times.

On energy policy, over the period 1985 to 1989, the Labor Government became increasingly focused on economic development and continued the shift away from energy conservation that commenced in its first term. This shift in priority was accommodated by the SECV in its planning and its actions, particularly its support for the Loy Yang B construction program. This in turn suggests, that the SECV and the Labor Government worked together to foster Latrobe Valley employment, continue with large scale development projects and to largely ignore demand management policies. The catalyst for change in this comfortable relationship came not from Labor, but from the SECV. By 1989/90, SECV management was ready to tackle high debt, excess capacity, overmanning and poor work practices.

It was noted throughout this chapter, that certain management actions and decisions were in line with what would theoretically be expected of the SECV based on the shortcomings attributed to bureaucracies. Rules and regulations aimed at dispensing equitable results were promulgated, devolution was accompanied by stringent guidelines, the 'old ways' of power station planning were employed, the business unit structure retained functional elements and employment remained a 'career' along with precise division of labour. Equally it was also noted that the SECV was looking outside the organisation at its operating environment and that there was a management commitment to many of the elements of commercialisation, it was just that progress was slow. On balance though, the important issues for the future was management's preparedness to change the organisation, to challenge the notion of 'employment as a career', to put in place a divisional 'business unit' structure and to make the SECV less bureaucratic.

By 1990 the Victorian Government was reeling from the effects of internal faction fighting, the financial losses of the VEDC, the State Bank/Tricontinental failure, the

bankruptcy of the Pyramid Building Societies, a general economic downturn and very high (and costly) public sector debt. The Government faced these issues while still continuing to battle the federal Labor Government on fundamental economic policy matters. Against this background the SECV proposed the most radical changes to the organisation in its history. The SECV was in the 'drivers seat' as corporatisation, with the backing of the Commonwealth, became the way forward.

CHAPTER SEVEN

1989 to 1992 - CORPORATISATION AND THE START OF PRIVATISATION

Introduction

By the end of the 1980s the trappings of managerialism were present in the SECV but its impetus was substantially dissipated. The close control of the early Labor years, which accompanied the introduction of managerialist techniques, had been largely replaced by a more 'hands off' approach by the Government while SECV management pushed on with the commercialisation of the organisation. This trend continued in the final Labor years when the Government procrastinated while the SECV corporatised, fostered competition via its support for the national electricity grid, shed unwanted assets and functions, reduced employee numbers significantly, and notably, promoted the sale of Loy Yang B.

It can be argued that until legislative or other formal arrangements are put in place to provide autonomy to public utilities in day to day decision-making, including commercial decisions, that corporatisation is not achieved. On this basis the SECV was not corporatised under Labor. However, to counter this narrow perspective of corporatisation is the case of the SECV, where so much was done in the early 1990s to extend commercialisation and corporatise the organisation. The 'hands off' approach by the Government during the commercialisation phase was extended through this period of corporatisation with important instances of the SECV and the Government working together but with the SECV leading the way. It was no longer a relationship based on Government 'control'. By this measure of autonomy an informal corporatisation of the SECV was present in its relationship with Labor in the early 1990s.

This chapter will argue that by the time of the 1992 Victorian election, the SECV was corporatised in all but the most formal sense, and that this corporatisation thrust was

largely driven by the SECV. It will also argue that the 'corporatised' SECV was poised to move to a new level of performance at the time of that election. The corporatisation of the SECV occurred as Labor became stultified by faction fighting and worsening financial problems from 1989 to 1992.

Costar and Economou (1992, 215) suggest that by 1988 Labor 'appeared jaded', Cain's appeal 'was beginning to wane' and 'the Government was confronted with a number of problems including revelations of imprudent lending practice' by the VEDC. These difficulties were not translated into election results in 1988 when Labor was returned with a majority of four seats in the Legislative Assembly. Though much worse news was to come for Labor leading up to the 1992 election, with the full impact of the VEDC losses becoming clear, the State Bank/Tricontinental disaster culminating in the sale of the Bank, the collapse of the Pyramid Building Society and the resignations of Jolly, Fordham and Cain.

Hudson (1992, 245) describes, Labor's third term (1988-92), as 'a dreadful one for the ALP and the Government. For a party that prided itself on its organisational policy development skills, the magic touch no longer worked.' Further, he attributes to an unnamed 'senior minister' the commentary that 'the character of the 1988-92 Government was shoring up, propping up, trying to hold on while the disastrous circumstances were going around' (Hudson 1992, 244).

Against this backdrop of a Government that appeared to lose its way, the SECV made the most dramatic organisational and philosophical changes in its history. Whereas the commercialisation phase had joined the SECV with an increasingly benign Government so far as policy direction and control was concerned, the corporatisation phase was quite different. What the SECV wanted to achieve was not necessarily in line with the Government's policies, which were themselves variable and at times ambiguous over the period 1989 to 1992. SECV corporatisation was achieved in a turbulent operating environment.

This chapter explores the final moves towards corporatisation of the SECV and the changes introduced by management that were the most striking in the organisation's history. It considers what corporatisation meant for the SECV and how the first moves towards privatisation began. It argues that the SECV took the initiative in these years of policy vacuum and a pre-occupied Government and adapted to the broader community and Commonwealth Government influences in its operating environment. The chapter concludes that the SECV managed these most significant changes effectively and that this was achieved by incumbent managers.

Management's Plans to Corporatise the SECV

Corporatisation of the SECV was greatly assisted by the years of managerialism and commercialisation that preceded it. During the 1980s the SECV had taken the fundamentals of managerialism and overtly embraced them as part of its culture. While it is argued in Chapter 5 that much of this was superficial, it was nevertheless part of SECV practice by the end of the decade, to report on performance, to set targets for the coming three years and to be involved in the range of managerialist activities raised in that chapter. Further, the period of commercialisation also had its impact, with its customer focus and consistent rhetoric from the top of the organisation about 'business', 'competition' and 'bottom line' performance. Together, the two themes of managerialism and commercialisation set the scene, when combined with the prospect of significant staff cuts announced in 1989, for an organisation in a state of transition. The culture of a job for life, of doing things the same way, of being insulated from outside influences could no longer be sustained or reinforced internally: new practices had overtaken the old ways.

In the late 1980s the SECV extended its commitment to new practices and new ways and embarked on the most significant reform in its history: corporatisation. The cultural and organisational change necessary for corporatisation was not achieved by changing the people at the top; they remained long-term SECV employees. It was achieved by the people at the top changing their outlook, enunciating a new role for the SECV and communicating this to the whole organisation. The rhetoric of

corporatisation was supported by organisational structural change and by the generation of a series of internal documents that pointed to a less bureaucratic, results focussed SECV. Consideration of the first of these three factors management rhetoric follows; the latter two, structural change and formal documentation are discussed later in the chapter.

Management's Push for Corporatisation

In an interview in February 1990, made available to all staff, the SECV Chief General Manager, Smith, made a number of telling comments about the SECV and the decade ahead. Smith held the view that external factors would have an even greater bearing on the SECV in the 1990's than in the 1980s. He predicted that while there would be a number of internally generated issues requiring management attention, the 'balance of influences will be external rather than internal' (SECN356 1990, 4). Smith cited international competitiveness, energy conservation due to Greenhouse effects and industrial customer demands as examples of external factors while he saw the 'biggest internal issue' as how the SECV would cope with the 'financing of capital investment' (SECN356 1990, 4).

On the issue of capital investment, Smith then raised the associated matters of the SECV's debt, interest expense, the difficulty in raising capital because of Federal Government borrowing restrictions and the likelihood of private sector involvement in the energy market (SECN356 1990,4). In doing so, he was setting the scene for the most significant organisational and cultural changes made by SECV management in 70 years.

Smith's message was that the 1990s would be a decade of great change for the SECV and that the organisation must increase its competitiveness, be outward looking and prepared to take risks. He repeated the 'downsizing' strategy and said:

We believe that we can downsize the organisation by 20 percent to just over 17,000 in two or three years time... We have to do our best to be one of the most efficient utilities amongst advanced countries if we are to do our part in

advancing the Victorian and Australian economies. We are increasing the performance targets of our organisation. At the same time we are reducing overall resources provided to our managers. It means that they will have to take a more single-minded approach to solve problems. They can't have the luxury of a primary plan and a couple of contingency plans (SECN356 1990,5).

It is reasonable to presume that this series of statements, made by Smith in February 1990, was supported by the Labor Government as he was made Chairman of the SECV on March 2 1990 (on the retirement of Cook). He was replaced as Chief General Manager by his deputy since 1988, George Bates, who had joined the SECV as a cadet engineer in 1951. White, the Minister for Industry Technology and Resources, said at the time of Smith's appointment as Chairman that the 1980s had been a period when SECV culture had changed and when a new relationship had developed between Labor and the SECV. White went on to say:

At the beginning of the decade the SEC was offering rewards for increased power consumption. Now it is a partner with the Government in a very important campaign to reduce energy consumption as part of the plan to beat the Greenhouse effect. Jim Smith's time at the SEC had also seen the introduction of a new management approach based on consultation and participation (SECN357 1990, 3).

The rhetoric of change, and of where the SECV saw itself in the 1990s was also reinforced by Bates in April 1990 when he stated:

I believe in the importance of achieving results and I suppose I take a hard-nosed approach to getting them. It may not suit everyone, but it is my style and it is the way of business. The SEC has for a number of years now ceased to be a paternalistic organisation. We are a business and we have to operate as a business (SECN357 1990, 3)

Bates went on to support Smith's message of February 1990 when he said that the SECV had to become more internationally competitive on electricity pricing while servicing debt and maintaining a capital works program. Bates also expressed concern about the cost of capital and interest rates which, combined with Government restraint on borrowing made it increasingly difficult for the SECV to

finance its capital works programs. Finally on the issue of operational efficiency, Bates commented that the future of the Latrobe Valley rested on productivity improvements and being competitive with other forms of energy (SECN357 1990,3).

By April 1990 Smith and Bates had emphasised the business like orientation of the SECV and that this orientation would drive key decisions, including 'downsizing' and financing future capital programs. They had also raised the notion of some private sector involvement in the energy market.

In August 1990, in a submission to the IC (1991) Inquiry into 'electricity and gas' the SECV proposed that 'some private power generation should be introduced in Victoria as early as practicable to make the industry more competitive' (SECN362 1990, 6). Commenting on the submission, Alan Freer, the SECV Acting Chief General Manager stated:

We believe very strongly that competition ensures the best results for customers and this approach applies to business in both the public and private sectors (SECN362 1990, 6).

The SECV submission emphasised that full privatisation was not in the best interests of customers, but that there would be general benefits from competition in power generation (SECN362 1990, 6). This proposal for partial privatisation did not pose a threat to the SECV because, by continuing to control the distribution of electricity, the SECV would retain its pre-eminent position in the Victorian electricity market. The source of electricity, whether from the national grid or an alternative generator in Victoria, would not threaten the SECV's strategic position.

It was significant that Smith's and Bates' rhetoric regarding the notion of private participation in power generation and the benefits of competition, and White's praise of Smith on his appointment as Chairman, occurred in the same year, 1990. This suggests that White, Smith and Bates shared a vision of the future so far as SECV reform was concerned. An extension of this proposition is that perhaps much of Smith's rhetoric was conceived with White, but delivered by Smith to prepare the

Labor Party and the SECV for change without suggesting that such moves were Government policy. Whether this was the case or not, it does seem clear that if Smith's comments were opposed by White he would certainly have distanced himself from them; this did not occur. The views of the future held by Smith, Bates and White were not shared by all. There was a call later in 1990, by the Victorian Trades Hall Council and the Gippsland Trades and Labour Council, for Premier Kirner to remove both White and Smith from office. This call was on the basis that the SECV was in disarray (Kellow 1996, 155).

By the end of 1990 Smith announced that greater productivity improvements were possible by reducing staff by a further 10 percent in addition to the twenty percent realised at that time; some two years ahead of schedule. He sought more ambitious award restructuring and reform targets and made the point that the benefits of administrative reform would be limited without contracting out and competition. Smith commented:

Despite all we have done in the SEC, featherbedded manning agreements and restrictive management and work practices remain. From our experience, structural reform is necessary to shake them loose (SECN365 1990, 3).

The *SEC News* (SECN) was also used as a vehicle to report on Smith's address to a conference in November 1990, where he proposed that Loy Yang B1 and B2 should be sold and privately operated. Smith proposed that the sale would provide increased competition and reduce SECV debt and interest obligations, which he claimed were two to three percent higher than forecast at the start of the project (SECN365 1990, 3). In December 1990 he took this further and told all staff in relation to the full sale of Loy Yang B1 and B2 that the SECV could not 'put a proposal and recommendation to Government, with whom the final decision rests, until we have been to the market place'. Smith went on to announce 'expressions of interest is the next logical step for the SEC' (SECN365 1990, 3).

In early 1991, the IC released its draft report on electricity and gas for comment. According to Bates this draft went too far in recommending extensive privatisation and a new bureaucratic structure to run the national electricity grid (SECN367 1991, 3). He advised that the SECV response to the draft would aim to ensure the future importance and prosperity of the Latrobe Valley in a national grid. But Bates must surely have realised, that for those bent on extensive privatisation, that his further comments provided comfort when he said, 'we do see an important role for some private investment to provide competition, improve our financial position and keep our prices down'. He also said that the sale of Loy Yang B, 'which obviously requires Government approval, would be one important way of achieving these goals'. Bates was keen to emphasise that such a sale would be in the interests of Victoria and the Latrobe Valley as well as the SECV and that 85 percent of generating capacity would still be in public ownership (SECN367 1991, 3).

Again in May 1991 Smith pushed for the sale and private operation of Loy Yang B at a 'Power Generation for the 1990s and Beyond' conference. The conference was sponsored principally by the SECV to consider the role of private enterprise in the electricity industry, the national grid and environmental issues (SECN369 1991, 3). The conference was opened by Premier Kirner, who outlined future options for Loy Yang B which included construction proceeding as planned at considerable cost or being deferred at the expense of employment (SECN369 1991, 3). This was an articulation of the dilemma that had faced Labor in the 1980s, but which had been rarely acknowledged, that there was a correlation between unwise capital investment and employment. The SECV was quite clear and very outspoken on how this dilemma should be resolved. Smith had stated some months earlier that the SECV would not commission any new plant, but would meet additional load 'through better utilisation of existing plant' (SECN356 1990, 5). While it will be argued that the SECV adapted to its environment, it is also argued that in the case of Victorian Labor (or elements of it at least) the SECV worked hard to change or modify that environment.

While Smith was overtly pushing for the full sale of Loy Yang B, White was working within the Labor Party to achieve this. White explained that because of SECV debt and pressure from the Federal Treasury and the Prime Minister to limit debt, that the Government had decided it needed some equity finance in Loy Yang B (White 1996, 6). White was charged with getting this proposition through the Party, and was pushing internally for the sale of 100 percent of the power station; the 'Party eventually agreed' to sell 40 percent (White 1996, 6). White and Smith were working together as a team and while Smith was promoting the full sale of Loy Yang B, the suggestion is that White would have persisted with this course, if he felt it was achievable.

A further example of the SECV pushing for change was an unequivocal statement in its 1991 Annual Report in the context of a PBRC (1992) inquiry into corporatisation. The PBRC (1992) review was initiated by Kirner in 1991, and is discussed at some length later in this chapter. For present purposes it is sufficient to note that the SECV again took the initiative by publicly voicing its preference for corporatisation and how it saw the role of Government in a corporatised future:

The Government, whilst retaining ownership and ensuring accountability of the SEC through policy instruments, performance measures, objectives and targets, would be relieved of the necessity for detailed involvement in the day-to-day operational activities of the SEC (SECAR 1991, 17).

In a clear attempt to lead the debate, the SECV proposed that corporatisation, would increase management accountability for both day-to-day decision making and for results. Further, it argued that corporatisation would also permit more precise role definition between its operations, its regulatory activities, energy policy development and community service obligations (SECAR 1991, 19).

The PBRC released a paper in 1991 'SECV Past, Present and Future in a Corporatised Competitive Electricity Industry' prepared by a former SECV commissioner and an SECV engineer on secondment to the PBRC. While not representing PBRC views, the paper provided a clear guide to what the SECV saw as

corporatisation and also made considerable reference to the SECV's transition from the early 1980s and the 'increasingly commercial orientation...from which future corporatisation initiatives would grow' (PBRC 1991a, 5). The paper listed SECV corporatisation proposals to include, the formation of its production and customer services functions into separate subsidiary companies reporting to a Chief Executive Officer (CEO), removing public sector employment constraints, encouraging private power generation and removing competition constraints on the national grid. The SECV wished to implement these proposals within a structure of State ownership with the Board accountable to Parliament through a shareholding Minister, the Board to appoint the CEO and the CEO to appoint executives. While the SECV proposed strategic and five year business plans to be approved each year by the Minister, this was to occur in conjunction with removal of the maximum community service obligations and for the SECV to set prices commercially within a Government framework (PBRC 1991a, 15). Both structurally and philosophically such proposals were quite foreign to the traditional and bureaucratic SECV. Further, as it transpired, they were far more adventurous than the PBRC was prepared to accommodate.

The rhetoric of corporatisation employed by both Smith and Bates was an important element of SECV change management. Internally they set the scene for an organisation in transition and openly and frankly communicated future directions. Staff were well aware that a less certain future was in store and that the 'old' SECV had gone forever. Externally this rhetoric conveyed the message of an organisation in tune with the times and prepared to make significant changes and foster fundamental reforms in the pursuit of improved performance. The SECV's strong overt position made it much easier for the Victorian Government to move down the corporatisation path. However the Government did not take advantage of the opportunity.

Debt and the Pressure to Corporatise

Over the years 1989 to 1992 there was increasing pressure from a range of sources for GBEs to corporatise. In the SECV case there was the added dimension of high debt

levels and a Victorian Government keen to be seen to address public sector debt generally. Corporatisation was seen as one of the tools to be used to address both debt and performance.

Pressure from the Commonwealth Government and Others to Corporatise

The Commonwealth Government's preference for fundamental change to improve the efficiency of GBEs was set out quite clearly in a 1986 policy discussion paper on statutory authorities and GBEs (Walsh, 1986). The Commonwealth proposed that competition for corporatised GBEs, or their privatisation, was the way forward as this would permit market focus and 'superior' private sector behaviour to impact on allocative and technical efficiency (Walsh, 1986). The Commonwealth reinforced this policy position by either corporatising, privatising or partially selling bodies such as Australian National Lines, Telecom, Qantas, Australian Airlines and the Commonwealth Bank of Australia. The IC also consistently pushed the theme that competition and fundamental structural change was crucial to improving GBE performance. At the Commonwealth level there was a push for GBEs to face competition to operate commercially and to have a bottom line focus.

This reduced concern with control and greater concern with a managerialist commercial focus and an emphasis on outputs was not an Australian phenomenon. As the OECD observed, when commenting on developments that had occurred in member countries:

There has been an explicit shift in behavioural emphasis from detailed regulations and compliance management to increased use of the discretion and initiative of operational managers in achieving targets defined in terms of outputs and results (1990, 11).

The OECD, commenting on Australian trends, reported:

In Australia, Government Business Enterprises are being restructured to provide them with a bottom line objective for performance ... Quasi-

commercial disciplines are being introduced ... with performance being judged in terms of returns on capital invested (1990, 12).

Over the latter part of the 1980s and into the 1990s Governments across Australia and internationally employed a range of variations on the managerialist, commercialisation, corporatisation continuum aimed at clarifying corporate objectives, streamlining organisational structures and injecting competitive forces into a range of previously protected GBE industry groups. This was done with the intention of freeing management to get on with managing for results and increasing efficiency.

In Australia though, one area where there was not generally an increased use of discretion by management or a loosening of control by the Commonwealth Government, was public sector borrowing. In fact it was agreed at a 1990 Special Premiers Conference (SPC) that there should be a tightening of control in response to high debt levels, except where funding was associated with micro economic reform (SPC 1990, 5).

The idea of the SPC emerged in June 1990 when the Commonwealth Treasurer, Paul Keating, announced that one outcome of the just concluded Premiers Conference/Loan Council meeting was support for a Special Premiers Conference to consider the process of fiscal restraint to 'maintain public sector savings' (Keating 1990,nn). In July 1990 the Prime Minister, in a speech at the National Press Club while emphasising the importance of collaboration between the States and the Commonwealth on micro economic reform, said:

It means we must improve the performance of the structures which underpin the national economy-it means better ports, a more modern transport system, faster communications, cheaper power (Hawke 1990, 3).

Hawke also announced that he was writing to all Premiers to propose a Special Premiers Conference to discuss *inter alia* micro economic reform. The Conference

was held later that year in Brisbane and resulted in a communiqué, which on the subject of micro economic reform stated:

Leaders were committed to improving the performance of their enterprises ...Leaders recognised that Australia's economic difficulties will require continuing restraint in public spending and borrowing...Microeconomic reforms such as improved pricing and competitive structures...in areas such as...electricity will greatly improve Australia's benefit from existing infrastructure (SPC 1990, 10).

The Commonwealth and State Governments were collectively looking to reduce debt and increase the efficiency of public infrastructure assets such as the electricity industry. In turn the SECV was at the forefront of this push for debt restructure and efficiency reform, it was prepared to sell non-core assets and even an asset such as Loy Yang B. It fostered the National Grid and associated competitive forces. Further, it had commenced by 1990 to reduce its number of employees by some thirty percent, to corporatise through the creation of a more 'divisional' structure and to reduce functional groupings in a 'flatter' hierarchy. It was prepared to change and embrace the thrust of Commonwealth policy and the competitive directions that emerged from the SPC. More than this, the SECV showed greater enthusiasm to lead the change than the Victorian Government.

Victorian Public Sector Debt and the SECV

In June 1991 the Victorian Treasurer, Tom Roper released, a Treasury Information Paper (TIP 1991) with the intention of dispelling disquiet about Victoria's financial position, and in particular, the extent of debt. Quoting support from the Auditor General for a whole of Government statement of assets and liabilities, Roper claimed that:

Victoria as a whole has assets of \$93.7 billion, well in excess of liabilities of \$53.8 billion. For each Victorian, assets at \$21,550 per head clearly exceed our liabilities of \$12,368. A good example is the SECV which writers criticise for debt of \$8 billion while ignoring assets built up in this century of \$15 billion (TIP 1991, iii).

That the SECV was cited as an example was a reflection of the amount of political and community pressure the Government was feeling over the debt issue generally and particularly as it related to GBEs.

SECV debt, according to the Victorian Treasury, at 30 June 1990, was \$8195 million (TIP 1991, 77). This was 66 percent of total Victorian Government non-budget sector net debt at that time and had been a constant proportion of that since 1987. It was also reported that at 30 June 1990 the SECV had \$1283 million of capital works in progress or 'committed' for expenditure; this represented 61 percent of total non-budget sector works in progress (TIP 1991, 92).

The SECV position in the Victorian public sector (non-budget) loomed large. It was responsible for some 47 percent of assets and 66 percent of debt and this had been the case for some time (TIP 1991, 62). Further, with 61 percent of work in progress it was obvious that this debt position would continue in the short term at least. Of the total Victorian public sector assets and net debt at 30 June 1990, the SECV was responsible for 16.5 percent and 30.6 percent respectively (TIP 1991, 62). It was the exemplification of the public sector under Labor, big spending financed by debt. However, the SECV 'no new debt policy' scheduled to commence in 1990/91 (SECAR 1990, 5) was designed to arrest future growth in debt, and more significantly it meant that the construction of Loy Yang Units 1 and 2 would not continue to be funded by debt.

The Premier's 1991 Economic Statement and Subsequent Policy Initiatives

Premier Kirner, in her 'Economic Statement' of June 1991, stated that one of the key elements of the Government's plan for the future was improved debt management and debt reduction to ensure 'we are living within our means' (KES 1991, 2). She foreshadowed measures to reduce public sector debt, including a change of emphasis to reduce interest costs through in part, corporatisation of GBEs. Kirner proposed to combine corporatisation with improved target specification and performance

monitoring, so that 'efficiencies' from debt management would be maintained. Kirner proposed that corporatisation would reduce debt as GBEs would be required to 'achieve a commercial return on funds employed'. Further, in a full policy swing from the early 1980s and to improve GBE efficiency, Kirner sought to 'reduce their reliance on debt financing' via the use of VET equity funding and internal funds (KES 1991, 22-23).

The Labor move from strong debt preference was a major policy shift. Less than one year earlier the EBRC had reported that it did not pursue the issue of non-debt external funding in its inquiry into Victorian GBE debt because Labor's debt preference was 'one of political disposition rather than a shortage of schema for innovative financing' (1990, 318). Although, as discussed earlier, the VET methodology was closer to debt financing than true equity financing, as unit holders' investment was capital guaranteed and they were guaranteed a return, the significance of this symbolism should not be underestimated.

A further indication of the Government's concern over the debt issue was its preparedness to sell assets to retire debt. The Economic Statement identified the sale of the State Insurance Office and consideration of options to sell non-core assets such as Gas and Fuel Exploration N/L and pine plantations. Other sale proposals were the PSUT thirty-five percent share in the Portland Aluminium Smelter and sales of miscellaneous real estate which were expected to yield \$400 million in 1991/92 (KES 1991, 22).

Kirner also specified that corporatisation was appropriate for 'those parts' of GBEs 'which engage in trading activities or provide services which could be provided through the market place without compromising Government's social or economic objectives' (KES 1991,30). The SECV was cited as a potential candidate for corporatisation. Kirner considered *inter alia* that corporatisation would improve GBEs efficiency by causing a shift from a production focus to a market focus, and consequently generate internal funds for 'capital works'. She also expected corporatisation to produce greater accountability through 'improved information' on

GBE operations and 'through an appropriate system of rewards and sanctions' (KES 1991, 30). In addition to these claimed benefits, Kirner went on to stress that corporatised GBEs would be charged with:

Clearly showing the costs of social and commercial activities, and explicit identification and evaluation of subsidies. Social and political objectives should be achieved through direct subsidy from consolidated revenue rather than being hidden within the accounts of GTE's (KES 1991, 30).

The Government was looking to corporatisation in conjunction with a heightened emphasis on commercialisation of activities to drive GBE reform. Critically though, for the first time Labor proposed that funding community service obligations (CSO) should be a government responsibility, thus permitting GBEs to focus on core activities.

On the issue of privatisation the Premier stated:

The Government is not intending to privatise GTEs ... as corporatisation of GTEs will enable them to be managed on a profitability basis, to generate income for the Government's other social objectives (KES 1991, 31).

In a measured comment, designed in part to reassure the Labor Party, Kirner said:

Corporatisation would involve the GTE becoming a Government owned Corporation with ownership and control ... remaining with the Government. The Minister will appoint a Board, and approve a three-year Business Plan for the Corporation... The Board will be responsible for meeting performance targets. The Minister will be responsible for setting policy but not day-to-day management decisions (KES 1991, 32).

Finally, Kirner emphasised that corporatisation would occur 'with careful planning, preparation and monitoring of the costs and benefits'. The range of issues that required attention during the transition to corporatisation were identified by Kirner as cross subsidies, separating policy and regulatory functions from operating functions, competitive neutrality, CSOs, pricing policies and 'incentives and accountability arrangements' (KES 1991, 32). Labor did not have the luxury of time for such an

orderly consultative approach. It needed to act, but was more concerned with process than action.

In developing the formal GBE reform package which flowed from Kirner's Economic Statement, the Government decided that SECV, G&FC and Melbourne Water would be subject to the enabling legislation which was to be called the Public Authorities Act. The Bill was introduced in the 1992 Spring Session, more than a year after Kirner's Economic Statement. While enactment did not occur due to the election of the Kennett Government in October 1992, the draft legislation was an excellent summation of the contrast between the starting and finishing positions of Victorian Labor Governments. It provided for GBEs to have a performance based autonomy, free from day-to-day ministerial control. The draft legislation also provided for a financial restructure based on a debt equity swap. This swap was in essence a mechanism for the Government to assume some \$3 to \$6 billion of the three GBEs' debt of \$ 12.1 billion at 30 June 1991 (RPA 1992, 38).

In a discussion paper on GBE reform (RPA 1992) the Government's proposed benefits from corporatisation and the 'swap' included improved competitiveness through increased efficiency, a higher PAD and reduced public sector debt servicing costs due to debt centralisation (RPA 1992). The unstated political benefit was the removal of debt from high profile GBE balance sheets. Given the apparent importance of this policy direction for the Government, it is highly significant that legislation to give effect to the new direction was delayed for more than a year. It is suggested that as the Labor Government had strong Opposition support for corporatisation, it could have proceeded far more quickly than it did. A focus on process and appeasing the Labor Party and unions came at the cost of expeditious Government decision-making.

The Public Bodies Review Committee and the Industry Commission

Labor's delay in progressing corporatisation, and the time consuming consultation and policy development process, included the review of proposed SECV corporatisation

undertaken by the PBRC. The PBRC was chaired by Bill Landeryou MLC, a longstanding and controversial Labor member and former Minister in the first Cain Government; it delivered its report in June 1992. The terms of reference required the PBRC *inter alia* to report on 'the appropriate form of corporatisation in the State Electricity Commission of Victoria' (PBRC 1992, 11). The PBRC recommended that the SECV be abolished and replaced by a new body to be called the Victorian Power Corporation.

While the PBRC proposed a wide range of powers for the new corporation, it did not suggest any real diminution of the power or influence of the Minister who in turn was to remain responsible and accountable to the Parliament for the Corporation's performance. The PBRC recommended a streamlining of activities for the Corporation and the transfer of regulating and energy efficiency functions and staff to the portfolio Minister's Department, a corporatisation lynch pin, thus enabling the new body to focus on commercial activities. The PBRC looked to the proposed Power Corporation to develop a new culture, but to achieve this while ensuring that all existing SECV staff were employed by the new organisation, with the exception of the two groups joining the Minister's Department (PBRC 1992, 54).

Other key recommendations designed to enshrine the portfolio Minister's control were the retention of reserve power to give directions to the Board, the requirement for Corporation business plans to be approved by the Minister and the power of the Minister to replace directors who 'do not perform satisfactorily' (PBRC 1992, 59). These recommendations were to give effect to 'a new cultural regime capable of achieving best international standards of practice' (PBRC 1992, 54). The limited extent of the PBRC's recommended corporatisation did not align with the intent of the Economic Statement (KES 1991) or with the SECV's wishes.

While there can be many reasons for the PBRC's cautious approach to corporatisation, it was not pushed by the Government to adopt the Economic Statement model. The PBRC noted, 'there is no statement available as to the approach the Victorian Government intends to take on corporatisation' (PBRC 1991b, 25). Although it did

report that White, the Minister for Manufacturing and Industry Development, provided one possible model and that a Cabinet Committee, the Government Commercial and Trading Enterprises Committee, had been established to consider such matters (PBRC 1991b, 25).

In the absence of a strong Victorian Government lead the PBRC consistently referred to research on corporatisation and electricity industry efficiency conducted by the IC and its predecessor the IAC. In particular the PBRC referred to the 1991 IC Report on the electricity industry, which called not for improved technical efficiency but for fundamental structural change and ownership changes (IC 1991a). The IC acknowledged that administrative reform could contribute to significant efficiency improvements but this was tempered by its belief that the 'consequences of corporatisation of public utilities would be greater' (IC 1991a, 9). This raises the question of the meaning of these terms. In the case of corporatisation the answer is clear. The IC described this as a situation where 'utilities were required to function as commercial entities at arms length from Government but accountable to Parliament' (IC 1991a, 9). 'Administrative reforms' were defined by the IC by omission rather than inclusion, as those reforms 'directed at achieving improvements without changing ownership or industry structures' (IC 1991a, 3). The IC elaborated and drew parallels between administrative reform or change and increasing efficiency through more 'commercial' approaches to management and cited the SECV as an example of a utility that had realised significant benefits through this process (IC 1991a, 3).

Alternatively, corporatisation was claimed to 'encourage more prudent assessments of resource use leading to increases in productive efficiency' and having the added benefit of improving labour productivity by increased use of external contractors (IC 1991a, 10). The IC also concluded that a more commercial approach by management would lead to improved evaluation of new investments. Other claimed benefits of corporatisation included improved pricing practices (IC 1991a, 12). In a section called 'going beyond administrative reform: the need for structural change' the IC canvassed the two key measures that it believed could 'lift the performance of the electricity ... industries to the fullest extent possible', the need for competition and the benefits of

private ownership (IC 1991a, 13). The SECV had promoted the notion of increased competition and limited private ownership in 1990. The IC clearly wanted full competition or even privatisation while the PBRC after many months of consultation and deliberation chose not to follow the IC and arrived at a corporatisation model that sought to ensure continuity of employment for SECV employees and the retention of the Minister's control.

Labor's Belated Push for Corporatisation

Almost two years after the 1990 SPC and a year after the 1991 Premier's Economic Statement, Victorian Treasurer, Tony Sheehan addressed the Committee for Economic Development of Australia (CEDA) on GBE reform and proposed, 'we have to maximise their efficiency if we are to re-industrialise our State to its potential. To re-industrialise we need cheap energy. And the competition is getting stiffer' (Sheehan 1992a, 3). In a reference to the imminent eastern states electricity grid he added - 'soon we will have to compete in our own State against electricity produced in others' (Sheehan 1992a, 3). Further, in a commentary, the first part of which could have been made by Cain, White or Jolly circa 1982, he observed:

The problem with our GBEs is the structure, the lack of focus, the obscurity of objectives, the absence of clear commercial concentration of purpose. In a word they do not have the right commercial culture (Sheehan 1992a, 4).

This raises the obvious question about what Labor had been doing for ten years and what would have been satisfactory progress by GBEs. Further, Sheehan commented that existing high gearing limited the capacity to fund capital expenditure by borrowing. This must have been galling for SECV management, when high gearing was the result of deliberate Labor policy over the 1980s. Much of his commentary on corporatisation and debt was to boost the notion of the debt equity swap, and consequent improvement of GBE balance sheets, as a claimed platform for improved commercial performance (there were also obvious political advantages in improved GBE balance sheets). Sheehan argued, not very convincingly, that rather than corporatisation resulting in simplifying the privatisation task, that it would have the opposite effect:

What is the gain in buying an enterprise that is fully efficient, that is maximising its potential, where the assets are fully valued and can be seen to be? Successful corporate reform of the GBEs-I emphasise successful- is the best guarantee against privatisation it is possible to provide (Sheehan 1992a, 13).

Sheehan mounted this argument in June 1992, an election was imminent and Sheehan acknowledged that the Opposition wanted to privatise GBEs (Sheehan 1992a, 4). Shadow Treasurer Stockdale held the view that corporatisation was 'a step towards privatisation' (PBRC 1992, 26). The SECV had reduced its workforce and was being prepared by management to take the next steps to improved efficiency. The proposed corporatisation legislation offered opportunities for the SECV to further improve performance. However, in mid 1992 that legislation and SECV advances were potential rather than fact and the Opposition was keen to privatise, in these circumstances it is suggested SECV management would have considered future privatisation to be a strong possibility.

In June 1992 Sheehan outlined the Government's GBE reform package, under the proposed Public Authorities Bill (1992b). Sheehan provided a timetable which comprised the release of a 'Resource Document' with background reading on corporatisation in July 1992, two rounds of consultation in June and July, an Issues Paper arising from the consultation released at the end of July, the release of financial analysis and the introduction of legislation into Parliament in mid August (Sheehan 1992b, 20). This appears to be a tight timeframe to introduce important legislation. However, as previously noted, the Government's commitment to corporatisation had been announced in the Premier's Economic Statement in June 1991 and the PBRC had released an information paper on SECV corporatisation in October 1991. In this context Labor's progress on the Bill was not impressive, particularly given its difficult political situation and the promised benefits of corporatisation.

Labor released the discussion document on the 'reform of Victoria's public authorities' (RPA) in July 1992. In the foreword Sheehan made the following policy pronouncements:

Privatisation of the major government trading bodies has been rejected by the Government. The performance of the State's utilities can be improved within public ownership (RPA 1992, i).

The RPA emphasised that the Public Authorities Bill, which went considerably further than the PBRC recommendations of June 1992, 'redefines the relationship between the Government and its major trading authorities' (RPA 1992). The basis of the legislation was to provide the authorities with a clear commercial focus, heighten their efficiency and competitiveness and reduce their debt while accommodating their community service obligations (CSOs). In a significant policy thrust the paper proposed a new methodology to deal with the conflict of objectives that can occur when commercial imperatives and CSOs are not aligned:

The Government is firmly of the view that greater efficiency will not be at the expense of equity. The draft legislation therefore includes provision for the Government to direct an authority to do (or not to do) things that the Board may not otherwise elect to do. In such circumstances, the authority would be eligible for Government reimbursement (RPA 1992, ES).

CSOs were defined as arising when a GBE was required to carry out an activity it would not choose to do or would only do at a higher price (RPA 1992,19). The critical aspect was the proposal for reimbursement, which was in line with Kirner's 1991 Economic Statement, and a clear indication that the Government was assuming responsibility for CSOs. Had the Government adopted this philosophy in 1982, the notion of using the SECV as a vehicle for economic development may well have been questioned. Some ten years later Labor acknowledged that it had a role to play in ensuring the right balance between 'efficiency and equity'. The new relationship between the authorities and the Government was described as:

Similar to the relationship between a major private corporation and its majority shareholder. The Board of the authority will have complete independence,

subject to its decisions being in accord with a corporate plan previously agreed with the Government (RPA 1992, ES).

In a throwback to the early 1980s the draft Bill proposed a range of managerialist techniques (RPA 1992, 32), but on this occasion, in concert with increased autonomy not increased control. The lynch pin was a business plan as 'the main vehicle for both the establishment of the expected outcomes and monitoring actual performance' However in a staggering development for a Government committed to accountability and transparency, the Bill proposed that the business plan was to be a confidential contractual arrangement between the Board and the Government with a separate less technical document, a 'Statement of Corporate Intent', available to the public (RPA 1992, 31).

The corporatisation thrust and the change from control to autonomy was encapsulated in the premise that Ministers were to be responsible to Parliament as nominated owners of the authorities. The only exceptions to this owner/authority philosophy were Ministerial directives, which were 'expected to be a rare event under the new commercial arrangements' (RPA 1992,32). In a further swing away from the traditional public sector approach the Bill also provided for two of the key elements of corporatisation; an incentive structure and outputs to be linked to rewards and sanctions. The Government's proposed corporatisation model was identical in all major respects to the model the SECV had been promoting for more than a year.

The Victorian Labor Government – An Impediment to Reform

By the time of the 1992 Victorian election the state of the Victorian economy and the underlying public sector debt levels were huge political issues for the Labor Government. Amid claims and counter claims regarding the State's financial position the Government, through Treasurer Tony Sheehan, established an 'Independent Review of Victoria's Public Sector Finances'(IRF) in July 1992. The Review Panel was chaired by John McIntosh, a Melbourne businessman and stockbroker. The IRF report was presented in September 1992 and while it attempted to alleviate concern about the

State's financial position, it was its consideration of corporatisation that is of interest for this thesis.

The IRF report argued that there were considerable benefits to flow from corporatisation and that the Victorian Government had been slow to act. The notion of corporatisation that the IRF had in mind was in line with the Victorian Government's model and included managerial autonomy, performance monitoring, rewards and sanctions related to performance and competitive neutrality in both input and output markets (IRF 1992, 312). In a very forthright manner the IRF proposed that 'while the major authorities have been pressing for corporatisation, the Government has not succeeded in enacting umbrella corporatisation legislation' (IRF 1992, 312).

On the issue of competition and the national grid the IRF found that: 'a key feature of the grid is the promotion of greater efficiencies through the separation of electricity generation, transmission and distribution of electricity' (IRF 1992, 310). This recognition of the importance of competition and conceptualisation of the electricity industry as comprising three elements, or operating divisions, was in line with SECV structure and its corporatisation push from 1990.

In a further reference to how GBEs were pushing on while the Government procrastinated the IRF found that:

The authorities have independently been moving towards contracting out and divestment of non-core activities which has been described as 'privatisation by stealth'. It has been occurring over the past few years and is likely to continue into the foreseeable future. As the authorities see the advantages of this, the conclusion that the shedding of non-core activities in the pursuit of efficiency is advantageous must be addressed further by Government (IRF 1992, 313).

The 'privatisation by stealth' reference was to a Monash University, Public Sector Management Institute publication (PSMI 1990), and although taken out of context by the IRF was a colourful way of indicating that the 'authorities' were pushing for corporatisation and that they were taking the initiative in contracting out and shedding non-core activities. The PSMI (1990) argued that GBEs were leading the push to

corporatise, which supports the argument in this thesis that the SECV was looking to make itself less bureaucratic, it was leading not following.

The IRF concluded that Victoria's major utilities were amongst the most efficient and profitable in Australia and attributed this to the Victorian Labor Government's reforms in the early 1980s. However, the IRF attributed national microeconomic reform with increasing the efficiency of markets and argued that this reform:

Highlights the need for the Victorian Government to clarify its framework for further reforms. Essential to this is the effective implementation of the basic corporatisation principles... (IRF 1992, 314).

This criticism of the Government's policy inaction is further support for the contention that GBEs were leading not following. The SECV was reading and reacting to the environment and looking at new policies and practices for the future aimed at making itself less bureaucratic. It was doing this while the Victorian Government procrastinated.

SECV Corporatisation in Practice

By 1991 the Victorian Government's preference for corporatisation had been public for some time as had Opposition support for the concept. Further, Commonwealth Government pressure, the Industry Commission and international experience all pointed to corporatisation. Changing the SECV organisation to this corporatisation 'state of mind', and meeting concomitant competition from the national grid were major challenges for SECV management. In addition there was the management of a major redundancy program and the decision to promote the sale of Loy Yang B. These latter two organisation-shaping events occurred concurrently and are discussed later in this chapter.

At the organisational level equally profound changes were instituted during the early 1990s. For the SECV these changes were a continuation of the work by management

during the commercialisation phase. The SECV emphasised the importance of the commercialisation phase when it reported:

Since the mid to late 1980s, the SEC has made significant structural changes and efficiency and productivity improvements aimed at achieving a commercial culture in the SEC... This work culminated in early 1989 with the establishment of three Strategic Business Units (SBUs) – Production, Power Grid and Customer Services (SECAR 1991, 17).

The SECV's corporatisation phase involved changes to the formal structure, to its methods of management and formal organisational documentation employed in the last years of Labor. All of these changes under corporatisation made the SECV less bureaucratic.

Corporatising and Streamlining the SECV Structure

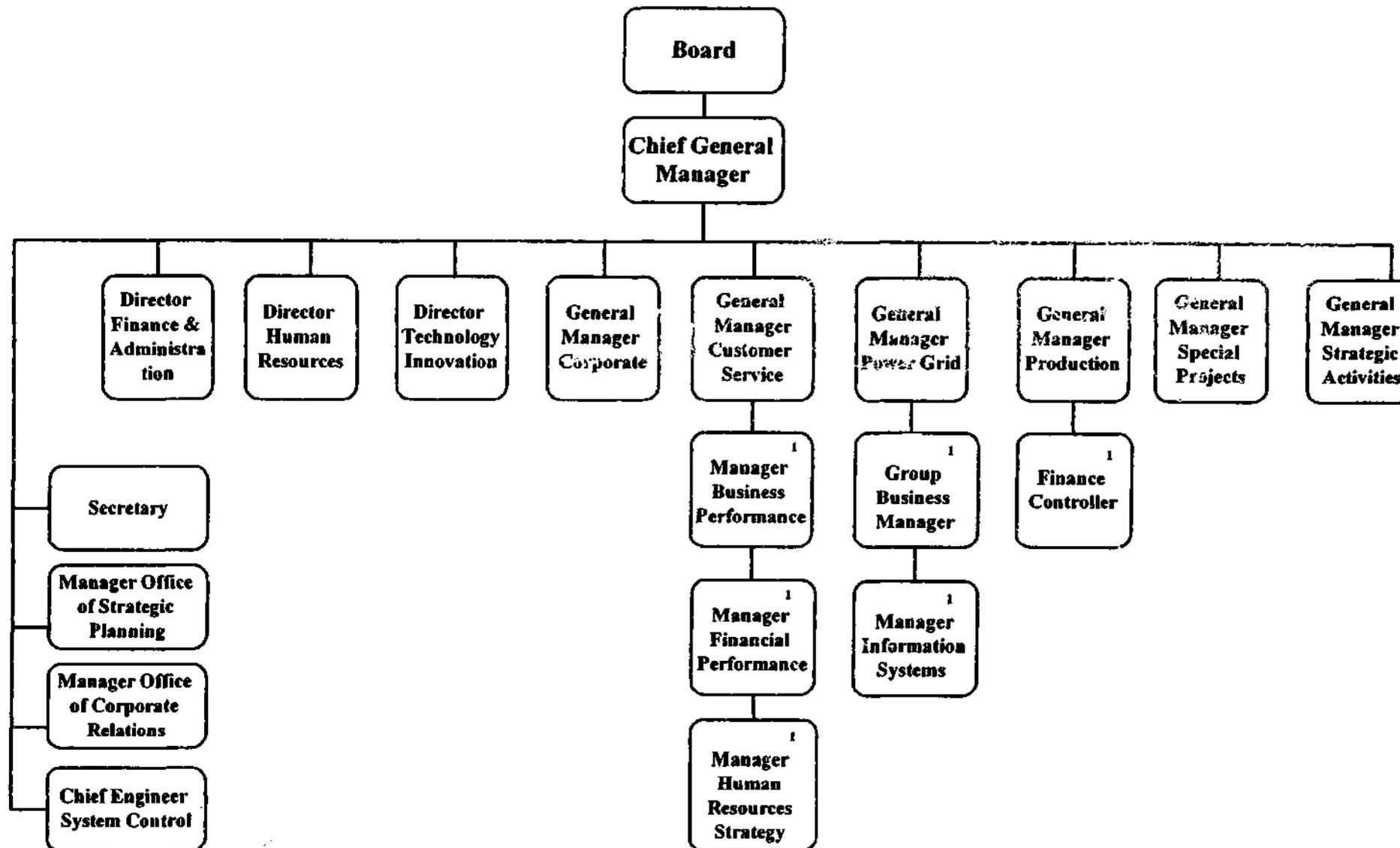
While the SECV corporatised its structure, it also employed a program of the sale of 'non core' assets and businesses. This disposal program streamlined the structure of the organisation back to core activities and resulted in a series of redundancies.

White, in September 1991, following a question in the Legislative Council regarding the sale of the SECV truck fleet and the decision to outsource the function, responded that a decision had been taken during the previous State Budget to sell non-core businesses and that:

During the course of the last financial year among the businesses sold by the SEC were the Brooklyn stores to Linfox. As a consequence of that sale there was a reduction of the number of people employed at Brooklyn stores from a peak of 110 to 28 as a result of the introduction of better technology (White 1991, 198).

SECV corporatisation involved much more than extending commercialisation and addressing overmanning and poor work practices. Shedding non-core functions and contracting out, were prime examples of how the SECV was looking to fundamentally reshape the organisation.

Figure 5 SECV Organisation Chart 1991



¹ The direct reports to the three Business Unit General Managers shown in the organisation chart have been presented to illustrate the move to a more divisional structure, there were many other third level managers not shown above reporting to the various general managers and directors.

At the broader organisational level and as part of the transition from commercialisation to corporatisation via structural change, the SECV reported that its three Business Units each had business and strategic plans. Further, the Business Units comprised 'some 100 Business Centres which must also meet bottom line targets, providing their services to internal SEC clients ... in competition with private sector suppliers' (SECAR 1991, 17).

The three Business Units established in 1989 were the first real change in SECV structure from its traditional mechanistic functional form since 1918. As argued in Chapter 6, internally the Units were tightly rather than loosely controlled by the central staff departments. They were not 'stand alone' divisions in line with a 'full divisional' structure however, they were much more akin to divisional design than had previously been the case. Over the early 1990s the divisions became increasingly self sufficient and moved closer to a full divisional structure as corporatisation developed; the result was a less bureaucratic SECV.

Figure 5 sets out the SECV organisation chart in 1991. By this time the divisional nature of the structure was more pronounced and had moved significantly from the first tentative steps of 1989. This structure meant that the three SECV Business Units could readily be operated as separate entities under a formal corporatisation model.

From Figure 5 the most striking features are the broader span of control of the Chief General Manager compared with the case when a Deputy Chief General Manager was in place, and the extension of the divisional shape of the new structure. In the late 1980s the Chief General Manager had four direct reports. The abolition of the position of Deputy Chief General Manager increased this number to 13. This flattening of the organisation was part of an SECV strategy to shorten hierarchies to 'a maximum of six levels between the shop floor and the Chief General Manager' (SECAR 1991, 17).

Significantly this is a clear instance of a bureaucracy doing the opposite of what critics of the bureaucratic form would predict. The SECV maintained a vertical reporting hierarchy but it flattened it; the reaction to an increasingly complex operating environment was not to increase hierarchies and specialisation, but the opposite.

The divisional form introduced by the SECV in 1989 was extended by 1991. In the three Business Units there were a number of senior positions that previously were exclusively part of the central staff functions. For example, Customer Services Division had its own Managers of Business Performance, Financial Performance and Human Resource Strategy. In the Production Division there was a Financial Controller and in the Power Grid Division there was a Group Business Manager. Further and significantly, the key officers in the Human Resources directorate were designated 'advisors' in recognition of their role to assist, rather than direct the operational divisions. Again this decentralisation was not what critics of bureaucracies would expect. Devolution based on advice from the centre (no matter how forthright that advice) was a long way from the tight central control of the early 1980s and was a further example of a more flexible, less bureaucratic SECV in the 1990s.

There was also a regionalised structure sitting below the general structure in Figure 5. This regionalised structure was put in place to permit the 54 District Business Centres to be 'one-stop shops' for SECV customers and to become largely self-sufficient by the 1991/92 financial year (SECN356 1990, 5). Another claimed benefit of the re-organisation was that jobs were redesigned leading to 'a broader range of work with greater responsibility, and more opportunity for promotion' (SECN356 1990, 5).

Rohan Weatherhead, General Manager Power Grid and Peter James, General Manager Customer Services, were jointly responsible for implementing the divisional re-organisation. This was itself a significant shift from the past when such an important change would have been the sole responsibility of one or the other in

line with clear demarcations. Weatherhead claimed that the re-organisation would build closer links between their two Groups (SECN356 1990, 5). In the past, the concern was with aggregating like activities into functionally based departments and thus minimising the need for inter-divisional communication. This re-organisation not only devolved power to divisionally structured business oriented groups, but it also aimed to foster communication and shared goals between groups.

A Distribution Services Department was created to support these regionalised arrangements and the statewide network of District Business Centres (DBC). Dick Clark, the head of the Department, said at the time, 'this type of organisational arrangement has not been tried before in the SECV. We are devolving as much support to the DBCs as we can' (SECN357 1990, 5). This new SECV approach to structure was well summed up in its 1991 Annual Report:

The SEC continued to develop the model of three Strategic Business Units (SBUs) organised flexibly with a minimum number of hierarchical levels and supported by a lean Head Office (SECAR 1991, 101).

Formal Organisation Documentation and Methods of Management

In combination with corporatising its structure, the SECV employed new management processes and developed a suite of new organisational documentation to complement its more organic divisional structure. A compelling example of changes in management processes under corporatisation is found in an Absence Management Sick Leave Management Program employed in the Customer Services Division in 1990 (SECN358 1990, 11). The Program was to an extent mechanistic and bureaucratic, though this was partly due to the need for a structured approach, as the process had the potential for industrial/legal challenge if award requirements were not accommodated. In addition to the prescriptive nature of the Program it was also supplemented by an Absence Management Manual, the type of approach the SECV had employed for decades. The fundamental difference in this case was that the Program and the Manual were developed by the Customer Services Unit at its Central Region office for use in the division and to address its sickness absenteeism

'problem', which was estimated to cost the Unit some \$7 million per year (SECN358 1990, 11).

Consequently, while the new process had a certain bureaucratic form, it was a tool that also involved elements of managerialism and commercialisation, in that it was developed to meet a unit target to improve total workforce availability. The critical difference was that it was not centrally developed by SECV head office or even the Customer Services Division central administration. The sick leave Program was the result of a divisional initiative made possible by devolution of central control by the SECV, and was a clear instance of a less bureaucratic and mechanistic SECV structure resulting in changed work practices.

At the organisational level under the general SEP heading the SECV embraced the notion of 'skill extension' with the aim of increasing flexibility and enabling work across 'whole tasks' while making employees 'more accountable for their work group outputs' (SECAR 1990, 97). The SECV combined its former Performance Review and Development program with skills extension 'thereby providing a link between development, performance and remuneration' (SECAR 1990, 97). The concept of flexibility, accountability for results and a link between performance and remuneration was not part of the bureaucratic SECV of 1982. All of these factors were the opposite of the situation in the SECV for most of the 1980s where demarcation, focus on process and pay for service were the norm.

Also during 1989/90 the SEP was used as a vehicle to replace 'the multitude of classification, grade and salary levels previously in existence', with 'a single classification structure of up to 7 grades and 25 salary points (SECAR 1990, 98). However, while this was a much-needed reform, designed to promote flexibility and skill extension, it remained the case that progression within grades was still governed by skill extension and use while progression between grades was by 'merit selection' (SECAR 1990, 98). Consequently, the benefit of reducing the number of grades and by definition, broadening the salary spread within them, was mitigated by progression based on skill or qualification acquisition, not performance. On balance

this was a significant step forward from the past where length of service was a key promotional attribute and while it was not entirely performance based, it was a major shift in organisational culture.

This pay for performance philosophy was extended to senior management with the introduction of an 'Executive Performance and Development System' which incorporated 'performance pay based on both corporate and individual performance' (SECAR 1990, 98). Again in a shift from the past it was stressed that the System was based on outcomes and tasks required to meet business objectives. As an extension of broadening jobs organisationally the SECV also reported that:

The new executive remuneration scheme coincided with a 20% reduction in the number of executives, resulting in the broadening and enlargement of remaining executive jobs (SECAR 1990, 98).

In the following year the SECV developed a 'Human Resource Management Strategy' which 'streamlined' policies and replaced 'the previous approach of prescriptive procedures...by one of policy guidelines capable of adaption to specific operational areas' (SECAR 1991, 101).

These developments in process, in recognition of performance, classification simplification and devolution of human resource management responsibilities had their genesis in the commercialisation phase, but mainly in statements of intent and in certain tentative moves towards implementation. It was not until the corporatisation phase that they were to become reality. However the rhetoric of commercialisation and the work of Smith during the 1980s in setting the scene for these and many other dramatic changes in the SECV was a major change management strategy.

Industrial Relations

Much of the work of the 1980s also had a 'pay off' in industrial relations in the early 1990s for the SECV, though importantly not for the Labor Government. In June 1992

Treasurer Sheehan issued a 'Statement of Objectives' of the GBE reform package in which he used emotional rhetoric to reinforce the need for corporatisation. He said the viability of the SECV was threatened by high debt levels and the proposed national market in electricity (1992b). This was the second occasion in a month that he had made such comments, the other was his address to CEDA (Sheehan 1992a). But was his rhetoric aimed at the community and the Opposition or members of his own Party and unions who did not favour corporatisation? While the answer is not clear, it was the case that this latter group had contributed to delayed corporatisation since the previous year.

Alford (1992) submits that there were four phases in industrial relations under Labor. Phase one, 1982 and 1983, set the scene for the Labor approach in line with its election platform. Alford attributes the gains achieved in reduced industrial disputation over this period to the 'special relationship' between Labor and the unions. This thesis has argued in Chapter 5 that the Labor Government accommodated the unions in its first term, from 1982 to 1985, a view that was supported by White (1996). Alford's phase two, 1983 to 1986, meant melding Labor's reforms with the Prices and Incomes Accord. A new thrust during this time was industrial democracy projects and other non-wage based developments in agencies, including the SECV. Phase three 1986 to 1990 was a 'troubled period' industrially, this period also saw a range of disputes resulting from the Government's push to rationalise agencies and cut costs in a quest to improve its financial position.

Alford describes his phase four 1990-92 as one of accommodation:

The Government took a conscious policy decision not to antagonise the unions ... its position was that it would no longer pursue any reforms which would provoke a dispute (although it did seek to achieve some savings through natural attrition, in areas like the SECV and transport).

The nadir of this phase was in early 1992 when, in the face of union resistance, the Government had to make a publicly humiliating backdown from proposals to corporatise key public sector agencies (Alford 1992, 153).

Against this background the SECV engaged in a significant industrial democracy program which, while not at the core of its mainstream industrial relations management, was a very public demonstration of its preparedness to involve staff in the future of the organisation. Described by Alford as 'unprecedented', the program, described in chapters 5 and 6 of this thesis, commenced in the mid 1980s and 'at one stage entailed meetings with every one of the organisation's 20,000 employees' (Alford 1992, 157). The SECV invested heavily in investigative and training processes, and on 'consultants, internal facilitators, publications and videos to expedite them' (Alford 1992, 157); it had a genuine commitment to consultation.

Alford argues that 'the pay-off came in later years' through a lower strike rate and the acceptance by unions of the major restructuring and staff reduction exercise. Alford submits 'the industrial democracy project was not the only factor making this possible, but it laid the groundwork' (Alford 1992, 157).

The SECV continued with this program right through the 1980s as discussed in Chapters 5 and 6 and significantly through Alford's phase three, a time when industrial disputation was on the increase in the public sector generally. The second thing that the SECV did against this difficult background was to push on with changes aimed at commercialising and then openly supporting corporatisation and reducing its employees by 30 percent during Alford's fourth phase. The SECV acted while the Government procrastinated and tried to appease unions opposed to corporatisation. Significantly so far as the management of change was concerned, the SECV did this in an open and inclusive manner; a process not expected of bureaucratic/mechanistic organisations. The SECV collaborated and consulted with its employees and worked with unions at the enterprise level but at the macro level unions were in conflict with Labor; precisely the opposite situation to 1982.

Key Corporate Decisions and Directions Under Corporatisation

Apart from the 'downsizing' program and the promotion of the sale of Loy Yang B, there were several other significant changes of direction or emphasis taken by the

SECV in the last Labor Government years. Those changes were the deferral of work on Loy Yang B units 1 and 2 and the cessation of work on units 3 and 4, interconnection of an eastern states electricity grid, the SECV commitment to a very public environmental policy and a demand management program, and a changed relationship with the Victorian Government. Significantly all of these changes required strong external consultation and/or negotiation to be brought to fruition, and all required an outward looking organisation, not an attribute that critics of the bureaucratic form would have forecast.

The Management of a Major Redundancy Program

The SECV was not alone in reducing staff numbers in the late 1980s and early 1990s. From 1987 to 1991 Melbourne Water reduced its workforce by 32 percent from 7800 to 5300 and in the two years to 1992 the G&FC reduced numbers by 20 percent to 4900 (RPA 1992, 34). These workforce reductions were on a voluntary basis and all pre dated Labor's proposed corporatisation 'reforms' (RPA 1992, 34), a sequence the Government was keen to emphasise in an attempt to dissociate corporatisation from redundancies. In the SECV case the reduction was much larger in absolute terms from 22,826 in 1984 to 14,827 in 1992 and had the added political impact of the Latrobe Valley dimension. SECV redundancies arose in small part from the sale of non-core businesses, but mainly from the engagement of contractors to replace direct employment and the use of more efficient work practices.

A clue to the methods used to manage the redundancy program is found in the words used, and not used, by Smith and Bates to describe its intent and progress. This language was cool, matter of fact and to an extent uncaring. For example, in December 1990 Smith said that the SECV had sought a 20 percent reduction in staff over three years and found that it could meet the target in one year. He saw this as presenting an opportunity for further productivity and efficiency gains which could be achieved by reduction of an additional 10 percent of employees. The term attributed to Smith at this time was that this would be a reduction in its 'head count' (SECN365 1990, 3).

Further, SECV literature and both Bates and Smith also regularly used the term 'downsizing' to describe the redundancy program; a term in common usage at the time but one with many negative connotations. However, it was SECV silence on the redundancy program that was the most striking; of the many opportunities to comment on internal and external challenges facing the SECV neither raised the issue, even in passing, of 'managing' a 20 or 30 percent reduction in employees. The 1991 Annual Report summed up management's position:

The Voluntary Departure Package has achieved its goals as an overall corporate program. It may be utilised in the future... where there are surplus employees who cannot be redeployed effectively (SECAR 1991, 17).

Such terms and attitudes demonstrate how much the organisation had changed since the paternalistic early 1980s. The fact of the staff reductions, together with an overtly calculating approach to them, raises the question of why unions and staff were so accepting. The answer is threefold. First, the SECV management had consulted widely within the organisation and had prepared employees for an uncertain and competitive future. Second, reducing the size of the public sector was encouraged at the Commonwealth level, the Victorian Government accepted this and recognised the need to streamline its public sector (KES 1991). Third, redundancy payments were extremely attractive. The SECV paid for peace to smoothly achieve staff reductions.

The SECV redundancy package comprised two weeks salary for each year of service plus a superannuation retrenchment benefit (Ballis & Munro 1992, 15). A report commissioned by the Latrobe Regional Commission described such redundancy payments, called voluntary departure packages or VDPs, as 'very substantial' and 'a six figure sum' for those employees who had more than 20 years service (Ballis & Munro 1992, 15). The authors of the report commenting on a survey they conducted of employees who had accepted VDPs stated that:

Considering the length of service and the number of respondents in the prime of their working life, it is noteworthy that so many left a stable secure job with the SECV to take a VDP when the prospect of unemployment was so high (Ballis & Munro 1992, 15).

It seems that for many the VDP was more attractive than retaining permanent employment. In such circumstances an orderly program to reduce employees by at first 20 percent and then a further ten percent did not appear to require a great deal of management acumen. SECV employees seemed to be quite keen to take the VDPs.

However not all reports of the management of the redundancy program were benign. The *Latrobe Valley Express* (LVE) carried a story in March 1991 that alleged that an SECV manager had proposed (and had it rejected) that employees could be classified into various groups. Those who were considered 'non-essential', could be collected into an area and demoralised to the extent that the voluntary departure package was a more attractive option than continued employment (Johnson and Rix 1991, 183). The story was also carried by *The Age* in March 1991, where the leaked material was exposed to a wider audience (Kellow 1996, 155). While the proposal was rejected, the very nature of it would have been anathema for the paternalistic SECV of the 1970s and before, where it is hard to imagine a manager even putting such a strategy in writing. However, on balance such reports were rare and the SECV redundancy program was smoothly managed. A thirty percent reduction in employees would have seemed impossible in 1982, in the 1990s it was achieved in part by good management but principally by attractive VDPs. Again though, the work of Smith in preparing the organisation for change was an important factor.

Deferral of Loy Yang B Units 1 and 2 and Cessation of Work on Units 3 and 4

In addition to overmanning, the SECV also addressed the inefficiency of its other key productive resource, the 'generating' system. Decisions taken to defer Loy Yang B units 1 and 2 and to cease work on units 3 and 4 did not have their full effect on the SECV under Labor, as the stations were scheduled to commence operation from 1992 to 1999, and the principal financial benefit would have been felt after 1992.

However, it is important to acknowledge that power station refurbishment under the Production Improvement Program (PIP) extended the life of existing plant and in part permitted the deferral of units 1 and 2. The PIP program permitted this on two counts, first through obvious additions to generating capacity but second through the overtly generous agreement with energy unions to do this refurbishment work which took union pressure off decisions to defer the Loy Yang construction program. Consequently while Dreyfus (1998, 270) is critical of the generosity of the refurbishment agreement with unions, another perspective is that it was a cheaper way forward than investment in new plant

In 1988 Loy Yang B unit 1 was forecast to come on stream between 1992 to 1994, depending on demand for electricity, with the second unit some 18 to 24 months later (SECAR 1988, 58). By 1990 it was decided that unit 1 would be needed 'early' in 1993 and unit 2, two years later (SECAR 1990, 64). The next year the forecast was revised to Winter 1993 for unit 1 and three years later for unit 2 (SECAR 1991, 78), the PIP greatly assisted with this decision to defer. The PIP included a plant life extension for the Hazelwood power station which resulted in a generation capability increase by 1989 of 'some 20% above the 1986 forecast capacity of the station' (EDSIR 1989, 17). The 1990 deferral of units 1 and 2 and the additional capacity from the PIP meant that the SECV was able to report:

The timing of Loy Yang Units 3 and 4 was reviewed by the EDSIR. The earliest date for Unit 3 for planning purposes is now considered to be 1999 to meet high economic growth and assuming successful implementation of a medium level of demand management. Accordingly all work on this project has ceased (SECAR 1990, 64).

This decision to cease work on units 3 and 4 was claimed to be based on a future which included 'medium level demand management'. In the SECV case commitment to demand management had been, and continued to be, so modest that it had a negligible impact on demand. The decision to cease work on Units 3 and 4 really meant that because of the extent of excess capacity there was no need for these units in the medium term. This cessation due to excess capacity, makes claims by

White and Kirner in 1991 that units 3 and 4 were being reconsidered, and then cancelled because of environmental and greenhouse effect concerns (Kellow 1996, 154), sound like cynical posturing to the environmental lobby, which had grown in influence in the early 1990s. Even with its much vaunted environmental push and concern for the greenhouse effect of the early 1990s, the pragmatic SECV was not keen to use this as a reason to defer or cancel power station construction, as of course it was a coal based electricity provider.

As early as 1989 the SECV had indicated that there were doubts about Loy Yang B units 3 and 4 proceeding. In the first EDSIR report the SECV referred to the Government's 1988 decision that those units would be the next Victorian base load station, conditional on the SECV and unions demonstrating the competitiveness of this course of action compared with other supply options. The EDSIR concluded that 'this competitiveness still has to be demonstrated' (EDSIR 1989, 35). As the SECV was jointly responsible for bringing this cost competitiveness to fruition such a dismissive status report was indicative of reduced interest in the project by the SECV. Further, after the 1988 election it is increasingly difficult to find positive comments from the Government or the SECV about Units 3 and 4 proceeding. The political expediency of confirming construction prior to the 1988 election and then cancelling that decision some three years later to appeal to the conservation lobby, is a clear example of how Labor used the SECV for electoral advantage. Equally it could be argued that the SECV was a willing partner in this, as it promoted 3 and 4 proceeding, and then promoted cessation. Whether the SECV was a partner with the Government or not, the fact remains that from the outset under Labor, Loy Yang B was used for political ends. It was in the final Labor years that the SECV seemed to take the lead on power station construction with its decisions to slow Loy Yang B units 1 and 2 and cease work on units 3 and 4.

Sale of Loy Yang B

The deferral of units 1 and 2 and the cessation of work on units 3 and 4 were major decisions for the SECV, given its history of power station construction. However, by

comparison the SECV decision to push for the sale of Loy Yang B units 1 and 2 was much more significant given that this was fundamentally opposed to its culture and practice from 1918 to 1989. While commenting on the IC inquiry into energy generation and distribution, and closely following its full support for corporatisation, the SECV made it quite clear that it opposed the IC (1991a) call for 'mass privatisation of generation and distribution assets' (SECAR 1991, 19). The SECV favoured the creation of a more competitive industry by providing private sector access to a National Grid, coupled with some private capital investment such as in Loy Yang B units 1 and 2. In its Annual Report it strongly suggested that such a sale was not only desirable but was very much an SECV strategy:

On 18 October 1990, the Board of Commissioners confirmed its decision to sell Loy Yang B Power Station, having considered the nature of the proposed transaction and its commercial implications (SECAR 1991, 19).

The SECV advised that the Government referred the proposed sale to an ALP Caucus Committee to consider options. The SECV further reported that:

The Victorian Government is currently considering various alternatives to fund the completion of construction of the Loy Yang B Power Station. These options include the sale of a 40% equity interest in the Power Station to private investors (SECAR 1991, 19).

Labor eventually decided on the partial sale, of 40 percent of Units 1 and 2. The potential for this to be the start of a more comprehensive privatisation of the Victorian electricity industry would not have been lost on SECV management in light of international and national experience at the time. However it seems that a drive to mitigate debt and its 'no new debt' policy was an overriding factor to this high-risk position. The SECV was unequivocal in its view that it would have preferred the sale of all of Loy Yang B, it reported:

It would have been preferable to sell the entire or a majority stake to private investors as an unequivocal transfer of control to the private sector. However, it welcomed the Government position of introducing private equity as a major step towards the maintenance of the SEC 'no new debt' policy and the

introduction of private operation into electricity generation in Victoria (SECAR 1991, 20).

The SECV position on the sale of Loy Yang B coincided with opposition views at the time. As Jim Plowman, a Liberal MLA stated in the Assembly:

The coalition would have favoured 100 percent privatisation of the power station, a favoured position of both the State Electricity Commission (SEC) and, I understand, originally of the Cabinet before it was overturned by Caucus (1992, 1876).

During the second reading debate on the Loy Yang Bill in May 1992, Treasurer Sheehan advised that the SECV had been authorised to sell to a private investor a 40 percent share in the power station and that the proposed legislation provided for the sale of a further 11 percent to a company affiliated with the Government but independent of the SECV. Sheehan went on to comment that the sale would reduce SECV debt and increase its profitability (Sheehan 1992d, 1383). Stockdale, the Shadow Treasurer, pointed out that the Opposition was keen to ensure that the legislation did not inhibit further competition or an extension of private equity participation in Loy Yang B (1992, 1940).

The *Loy Yang B Act* was assented to on the 16 June 1992. The principal participating parties were the Victorian Government and Mission Energy Australia Pty Ltd, an Australian affiliate of the U.S. based conglomerate Mission Energy which was to purchase 40 percent of the power station and operate the total station. The partial sale of a public utility would have been dismissed as heresy by both the Cain Government and the SECV in 1982. Yet it was the SECV that promoted the sale initially, and of the total power station, a far cry from the insular, paternalistic and protective management approach of the past. The SECV approach was not what it would have expected of a budget maximising, inward looking bureaucracy. The SECV behaved in a manner which did not align with the 'weaknesses' attributed to the bureaucratic form. It took charge of the reform agenda while the Government attempted to manage a volatile political environment both internally and externally.

The Electricity Grid

At the same time that the SECV had been promoting the sale of Loy Yang B, it had also been pushing for the national grid to provide a competitive force in the electricity industry, and to take the pressure off future power capacity requirements. Through the grid the SECV and its eastern state counterparts, together with their respective Governments, sought to establish competitive multi-state sourcing of capacity requirements (SECAR 1991, 20). The grid was proposed to be open to private and public utility generation and had the potential to foster structural changes in the electricity industry. The most obvious benefit was the reduced need for reserve plant margins (RPMs) at historical levels. Working from the basis that not all generation systems would be under pressure at the same time, the grid offered the potential for interstate 'top ups' as required and consequently had the potential to reduce RPMs in individual states, as reserve plant could be shared.

On 30 March 1990, Smith officially opened the interconnection of the Victorian and New South Wales power grids with that of South Australia (SECN358 1990, 11). While this was a significant milestone, the SECV was also involved in a feasibility study with the Hydro Electric Commission of Tasmania involving a submarine cable interconnection. The SECV reported that 'private sector participation in the project will be pursued' (SECAR 1991, 21). The SECV stated its strong support for a National Grid, which would also include Queensland. It cited as a major benefit, and an indirect commentary on the shortcomings of the historical approach, that: 'the bidding process for capacity additions under this system would ensure that competitive forces are active on a national basis in the selection of future additions' (SECAR 1991, 5).

The preparedness to compete and to see others generate electricity for Victoria on the basis that this would benefit the State, if not necessarily the SECV, was a major philosophical shift that would not have seemed possible in the late 1970s and early 1980s. Again, this was a major example of SECV flexibility and a preparedness to change. Further, while the SECV continued to resist competition in transmission of

electricity that should not be interpreted as a lack of flexibility. In essence control of transmission meant control of electricity provision. It follows, that strategically the SECV could survive as the key provider of electricity in Victoria so long as it controlled the transmission lines, the source of the electricity was less crucial.

This SECV emphasis on competition in generation not transmission was a strategic position, not one determined by the past but one aimed at securing the future in a competitive environment. As indicated earlier, the Government was concerned about the impact of the grid on the SECV and used this as one reason for its debt/equity swap policy and the sale of part of Loy Yang B. The Opposition on the other hand was looking to the grid to foster its view of the world. As Stockdale stated;

We are concerned that beyond Loy Yang B power station there is the development of the national grid, and the evolution of competition in the industry raises the prospect of private equity participation and the unbundling of the electricity industry even in public ownership, which would create more meaningful competition across the generation, distribution and retailing sectors (Stockdale 1992, 1940).

These sentiments were not new or peculiar to the Opposition, the SECV had promoted involvement in the grid for a number of years, and before the 1990 Special Premier's Conference. The SECV was well aware of the impact of competition and the need to increase efficiency to meet it. It is also reasonable to presume that the SECV would have appreciated that this exposure to competition and its push to corporatise may have further facilitated its privatisation if a coalition Government were elected; it pushed on regardless. It is also important to note that Stockdale's 'unbundling' into generation, distribution and retail coincided with the SECV Business Unit structure that this thesis has argued was in place and ready to reap the benefits of corporatisation.

Environmental Policy

During the early 1990s both Smith and Bates made much of the SECV's responsibility in environmental and energy conservation matters. The overt

recognition of the environmental impact of SECV activities, particularly the Greenhouse effect, was a feature of the corporatisation period.

In 1991 the SECV reported:

The Greenhouse effect has continued to be an important environmental issue for the SEC – the producer of half the carbon dioxide (CO₂) in Victoria (SECAR 1991, 82).

That SECV report went on to detail a range of strategies arising from its Greenhouse Action Plan and the allocation of \$1 million for studies on the Greenhouse effect. Ancillary activities included assistance with the Victorian Government's submission to the IC Inquiry on the 'Costs and Benefits of Reducing Greenhouse Gas Emissions' (SECAR 1991, 82). Other environmental activities included investigations of renewable energy potential, land rehabilitation, an air quality study, water management, industrial waste management, superior electricity distribution via undergrounding or facade bundling of cables and an EES associated with a contingency gas turbine station (SECAR 1990, 1991, 1992).

In line with this concern for the environment Smith raised the Greenhouse effect as a major external influence on the SECV (SECN355 1990, 4) while Bates, on his appointment to Chief General Manager in April 1990 commented that environmental issues was one of the major challenges facing the SECV (SECN357 1990, 3). Both Smith and Bates repeated this commitment to the environment on a number of occasions and in a range of forums and it is easy to conclude that the SECV was committed to its environmental responsibilities. The SECV rhetoric was what the Government and sections of the community wanted to hear. White commented in March 1990 that the SECV was 'now a partner with the Government in a very important campaign to reduce energy consumption as part of the plan to beat the Greenhouse effect' (SECN356 1990, 3). However, while certain actions of the SECV were consistent in intent with the rhetoric, the overall organisational, financial and strategic commitment was not. Studies, submissions, investigations and \$1million to inquire into the Greenhouse effect was the SECV's attempt to manage

its operating environment by giving the appearance of action when in effect it did very little.

The SECV recognised the importance of environmental issues but also was clear that they were not part of its core activities. The SECV approach to environmental issues represents another example of the organisation effectively monitoring its external operating environment and taking measured action as a consequence. It did not ignore such issues or become inward looking, as some theorists would have expected, and its actions had the effect of demonstrating a commitment. It monitored the environment and acted to avoid adverse impact. In so doing the SECV did not behave as a highly bureaucratic, unadaptive organisation, but rather as one attempting to balance its core responsibilities with community and government expectations. It is argued that it learned from its past mistakes such as the poorly managed Richmond to Brunswick community interface and sought to placate potential critics.

Demand Management

An associated issue was demand management (DM). This was another instance of SECV overt commitment increasing under Labor and culminating in a great deal of rhetoric, matched by modest but high profile actions. From 1982 to 1989 there was a clear lack of genuine commitment to DM by the SECV. However by the end of the 1980s the SECV was overtly becoming mobilised on this front. This was manifest in the SECV's December 1989, '3-Year Demand Management Action Plan' which was to become a key component of Labor's Energy Efficiency Strategy released in June 1990 (SECAR 1991, 68).

The 3-Year Plan covered a range of methods designed to ensure the efficient use of electricity and a consequent reduction in demand. Those methods included energy efficiency appliance labelling, industrial energy usage audits, house energy rating and energy efficient display homes. The direct cost of the Plan to the SECV in time and money was relatively insignificant while the public relations benefits were

considerable. The SECV allocated \$ 55 million to the Plan to advance some 26 DM programs over three years (IC 1991c, 104). Though, as Kellow (1996) points out, it failed to spend all of this budget. He went on to comment 'it is clear that the utility had made no great effort to put the program in place' (Kellow 1996, 157).

Associated DM initiatives were cogeneration and renewable energy projects, which jointly aimed to provide standby supply, reduce Greenhouse effects, reduce energy costs, reduce demand for capital borrowings and permit incremental plant increases. At 30 June 1991 the SECV had eight projects (seven cogeneration and one renewable) that were recipients of an Incentives Package launched in June 1987 (SECAR 1991, 72). These eight projects had a total capacity of 47.5 MW, while SECV total installed plant capacity was 7763 MW. Another six projects were under construction with a capacity of a further 44.9 MW in total. While some 64 further projects with a combined capacity of 409 MW were described as either 'provisionally committed' (28) or 'viable and progressing' (36), only 14 projects with a total capacity of 92.4 MW were operating or under construction three years after the start of the incentive scheme (SECAR 1991, 72).

On face value SECV DM performance was not impressive. A view shared by Dr Amory Lovins (1990) who was commissioned by White to report on Victoria's energy policy, the SECV/DITR Demand Management Development Project and the SECV 3-Year Plan. On the joint SECV/DITR Demand Management Development Project, Lovins described its underlying assumptions as 'excessively' conservative and with performance targets that 'cannot be considered ambitious by the standards of more advanced programmes' (1990, 2). On SECV cogeneration and conservation measures Lovins remarked:

The time for treating alternative resources as a marginal detail incidental to the real business of building and running large brown-coal stations is already well past (1990, 5).

He urged the SECV to hasten and expand its demand-side programme beyond the Three-Year Action Plan' (1990, 5). The SECV overtly accepted Lovins' criticism

and responded positively when it announced it had 'modified its approach to off peak hot water heating, and has extended the Three-Year Demand Management Action Plan' (SECAR 1991, 72).

In its 1991 Annual Report the SECV estimated that since 1986/87 DM had resulted in 119.4 GWh sales lost due to conservation and 79.5 GWh due to cogeneration. The 1990/91 loss of revenue attributed to this was \$19.6 million and the net cost of DM programs was \$14.4 million (SECAR 1991, 74). These sums are relatively insignificant so far as SECV revenues are concerned and it is significant that the issue of opportunity cost or capital expenditure foregone or forestalled was not presented as part of the cost benefit analysis. Though the SECV did note that 'the conservation effects of ... DM activities will result in a net benefit to society in the long-term of \$43 million' (SECAR 1991, 74).

Further support for the argument in this thesis that the SECV was not committed to DM, is found in the staffing levels allocated to the program. Five people worked on DM in 1989/90 (SECAR 1990, 134) rising to eleven the next year (SECAR 1991, 134), this is not the level of resourcing that would be expected to achieve real DM benefits. The SECV was not committed to DM or other such non-core matters though significantly it recognised the importance of giving the impression that it was. The SECV had improved considerably at reading its operating environment and overtly appearing to be attuned, while in this case, not actually being committed.

Three reasons for this lack of SECV commitment to DM emerge from the literature. First, the SECV saw DM as a community service obligation (CSO) as it was not in its commercial interest to reduce demand when it could meet increased demand at low marginal cost (EBRC 1991, 52). Furthermore, the SECV held the view that once corporatised, it should have CSO requirements removed to a 'maximum extent' (PBRC 1991, 15). Second, 1980s excess capacity combined with the success of the PIP program removed any urgency for DM to solve problems of lack of capacity. DM was overtly employed by the SECV because the Government wanted it and the conservation lobby had overtaken the economic development push in the Labor

Party. Third, the 1989 establishment of the three Business Units with their commercial focus acted against the conservation thrust of DM, which had the potential to adversely impact on profit. As Kellow argues, the thrust for DM 'was undermined by the restructuring into business units' (Kellow 1996, 156).

The SECV said all the right things on DM and superficially seemed to be doing much. This was another instance of doing as much as was necessary to minimise criticism and satisfy the Minister and the Government while treating DM as a non-core peripheral obligation. The SECV reaction to its environment was measured and orderly, it was criticised by Lovins for its level of commitment but managed this well and appeared to be attuned to expectations and its responsibilities. It was very conscious of this, unlike Merton's (1968, 252) view of the behaviour of bureaucracies where an insular outlook can lead to 'inappropriate responses' to changed conditions.

While it can be construed that the SECV behaved like a traditional bureaucratic organisation by ignoring DM, it can equally be argued that DM responsibilities cut across core SECV business and the decision to ignore DM was thus commercial in motivation. Further, the efforts to appease the external environment on DM was not in line with the traditional SECV bureaucratic approach. Finally, DM was another instance of the SECV taking the initiative while the Labor Government procrastinated on the policy front. As Lovins concluded in his report to White:

The SECV is an able, dedicated ... open-minded organisation that has already made many of the most difficult steps towards modernising its outlook and activities. But only you as Minister, and your colleagues as the collective Government, can put aside all the lingering ambiguity about whether the task is to sell more electricity or less (1990, 33).

Lovins also called for the Government to clearly enunciate 'why the SECV exists [and] what is expected of it' (1990, 33). To call for such a defining statement about the SECV and to describe the DM policy framework as one of 'lingering ambiguity'

says much about the extent to which the Labor Government was stultified. In this leadership and policy vacuum the SECV led the way.

Relationship with the Victorian Government

By early 1991 the SECV redundancy program and re-organisation were well advanced. It was at this time that the results were released of the most recent of a series of SECV bi-annual customer snapshot surveys commenced in 1986. The purpose of these surveys was to continuously track SECV domestic customer perceptions of service and performance. The surveys were conducted by Melbourne based market research consultants Sutherland Smith. One of the principals, Bruce Smith, reported that most people regarded the SECV favourably regarding service, industrial relations and responsiveness to customers. However, Smith advised that from November 1990 there had been 'some sharp reversals, which were more pronounced in the Latrobe Valley than Melbourne, but the trends are consistent in both areas'. Smith went on to explain:

Not all these movements are in the control of the SEC. To a certain extent we can see that there are influencing factors deriving from attitudes to the State Government. There are influences also deriving from attitudes to the experience of the State Bank of Victoria. In other areas we are seeing the influence of activities initiated by the SEC such as structural efficiency programs and privatisation (SECN367 1991, 10).

These comments are significant on a number of counts. First, it was the sign of a 'mature' organisation that internal information regarding adverse reaction to initiatives was not stifled. Second, it openly highlighted areas where SECV attention was required and consequently raised expectations that action would follow. Third, and most importantly, the SECV was prepared to see the reversal in its fortunes attributed in part to attitudes to the Victorian Government and to the State Bank issue. The SECV was not a 'creature of the Government' in this important instance. The SECV actions were symptomatic of an autonomous as opposed to a 'controlled' organisation.

Other instances of this new or emerging relationship with the Labor Government include the SECV push for corporatisation and greater autonomy in day to day decision-making and its public recognition of how, through increased efficiency, it could improve Australia's competitiveness. In both cases the SECV demonstrated a willingness to look beyond its immediate role as an electricity provider to consider its place in a broader economic context into the future. It follows, that it would have been well aware that the future may not have included the Labor Government, and SECV actions and positioning were designed to appeal not only to the existing Government, but also to its possible replacement. An awareness that was not present in 1982 when the SECV seemed quite unprepared for the incoming Labor Government.

By 1992 the SECV was a considerably stronger organisation than was the case in 1982. In contrast the Labor Government had lost momentum by 1992 and was reacting, not leading. The views of White on the last years of Labor and on the SECV present a valuable insight into how the relationship had changed. In 1982 White was highly critical of SECV management and had sought to control the SECV and change its culture and make it more accountable. He described the SECV in 1990 as a 'partner with the Government' (SECN357 1990, 3). When commenting on the metamorphosis of the SECV, White stated 'the leader of the change was Jim Smith' (1996, 6).

The relationship between White and SECV management had changed completely. It was by 1992, a partnership seeking to improve SECV efficiency and to address decades old problems. But most significantly, and probably for political reasons, White was prepared to let Smith and the SECV behave like the senior partner and take the public initiative on SECV reform. In all but the most formal sense the relationship between the SECV and the Minister had the appearance of corporatisation in practice. Smith, not White or the Government, was running the SECV and its reform agenda and Smith was well aware of wider responsibilities and accountabilities other than to the Victorian Labor Government.

SECV Operating Performance Under Corporatisation

The corporatisation phase was not one where significant performance gains were made. Though it was during this period that many reforms were put in place to enable future productive efficiency improvements.

Labour Productivity and Industrial Relations

After commenting that the major Victorian statutory authorities had reduced employment over the five years to June 1992 and that productivity improvements had been significant, the 1992 Independent Review of Victoria's Finances (IRF) found that 'there is still considerable scope for improvement when compared with the best performing international and interstate equivalents' (IRF 1992, 318). For the SECV, after urging caution with comparisons, the IRF reported that 'Queensland has a significantly higher level of labour productivity than Victoria' while 'some organisations, such as Trans Alta Utilities of Alberta, Canada have labour productivity figures per unit of electricity produced of almost four times the equivalent Australian figures' (IRF 1992, 319).

On the subject of contracting out, the IRF found that there was considerably more scope for this than had occurred because of the extent of union coverage and the 'permanent' nature of employment in large statutory bodies. Here the IRF was critical of the Government:

The Review notes the potential for efficiency gains from contracting out such non-core activities, but notes that at present there is no clear Government policy on principles which should apply in the case of selling off aspects of its businesses (IRF 1992, 322).

The report also argued the inadequacy of SECV industrial relations management compared with the Mission Energy enterprise agreement in relation to Loy Yang B and observed:

Mission Energy's stance is that a demarcation-free workplace is a key to profitability, and its preference is to deal with only one union. With the achievement of this objective, particularly with the introduction of the national electricity grid on 1 July 1993, there will be considerably more pressure on the SECV to achieve the same conditions on competitive grounds. Freedom from external interference would be critical in this process (IRF 1992, 322).

The 'external interference' was most likely the State Government although other possibilities included various Latrobe Valley parties or the State Opposition.

Labor also believed the SECV should have employed enterprise agreements such as that between Mission Energy and the Australian Services Union for Loy Yang B. The Labor Government argued that the agreement would allow Loy Yang B to be operated with less than 170 employees, 25 percent below probable staffing levels based on SECV industrial agreements (RPA 1992, 34).

Labor did concede that the SECV had employed award restructuring to reduce the number of relevant awards from 25 to 5 and had flattened its management structure (RPA 1992, 34). However in the final analysis it argued:

The SEC has progressively improved its labour productivity over the past four years. However, its output sold per employee in 1990-91 remained significantly below that achieved by New South Wales and Queensland (RPA 1992, 25).

Such criticism by Labor must have been difficult for the SECV to accept considering the extent to which the Labor Government was prepared to pander to Latrobe valley unions and accept SECV endemic overmanning and poor work practices in the 1980s.

The Price of Services and Total Factor Productivity

In addition to considering industrial relations issues and labour productivity, the IRF moved to consider the price of services after commenting that this was the 'performance indicator considered most relevant by industry' (IRF 1992, 323). The

Review found that prices for major authorities' product had fallen in real terms in the five years to June 1992 due to constraint 'by Government policy' (IRF 1992, 324). This constraint was the Government's policy of a 'price cap on the services provided by its authorities linked to movements in inflation' (IRF 1992, 324).

While conceding that Australian electricity prices were the third lowest in OECD countries from 1987-88 to 1990-91, and that SECV prices were amongst the lowest in Australia, the Review found that:

Total factor productivity comparisons of the Australian industry against investor owned utilities in the US suggest that the Australian industry is about 30 percent less efficient than the US industry. This is a substantial improvement from the mid-1980s when the Australian industry was 50 percent less efficient. Total factor productivity improved by 4.4 percent per year for Australia in the period 1983 to 1990, with Queensland the best performer and New South Wales and Victoria the worst. This suggests that the scope for further improvement in Victoria is significant (IRF 1992, 330).

These findings were based in part on BIE (1992) research referred to elsewhere in this thesis, it is noteworthy that they were so forcefully put by a Review commissioned by the Labor Government and so close to an election. These findings also support the argument that the SECV was poised in 1992 to secure significant efficiency gains into the future

Operating Performance and Debt

Of the Victorian Government gross non-budget sector debt of \$13.9 billion at 30 June 1992 over 60 percent was attributable to the SECV. The IRF was unequivocal when it centred responsibility for this debt position on the Government:

The debt levels of the authorities, especially the SECV, reflect the Government's position over the past decade, and most particularly the past five years, of using debt financing rather than injections of equity funding (IRF 1992, 335).

This commentary was not important so far as apportioning blame for the debt position; in fact the IRF made the significant point that the long run cost of debt is likely to be lower than the long run cost of equity, and consequently, debt remained an attractive infrastructure funding source. What was important was the unequivocal statement that debt was the Government's 'position'. Equity was not a serious alternative in the 1980s. By the 1990s Labor was prepared to look at other forms of financing, but it was the SECV's moves to sell Loy Yang B, divest itself of non-core assets and its no new debt policy that led, rather than followed, the Victorian Labor Government.

While managing a volatile internal and external operating environment it could have been expected that SECV operating performance may have suffered during corporatisation. This was not the case, though corporatisation was not a period when gains were made on this front. Over the last Labor years, as growth in demand for electricity slowed and installed capacity remained static, average excess capacity fell from the very high levels of the mid-1980s while still remaining between five to 11 percent above a 20 percent RPM. It does not seem reasonable for management to take all the credit for this improvement as it was largely a case of time mitigating the effect of poor historical decisions. However, the PIP program and the consequent ability to defer Loy Yang B Units 1 and 2, was an important strategic initiative taken by the SECV.

Over the four years to 1991-92 interest less capitalised finance charges ranged from 35 to 41 percent of electricity revenue, while the expense item labour, materials, contracts and miscellaneous remained relatively constant at 37 to 41 percent. These key indicators of cost of sales did not change in the last years of Labor. It is noteworthy though, that non-current liabilities which had increased nearly every year from 1982 were stabilised by 1991 and 1992 in keeping with the SECV 'no new debt' policy. The key financial ratios presented in Chapter 4 reveal that the 'financial health' of the SECV improved in the latter years, while profitability and performance generally deteriorated with return on assets, return on equity and return on revenue all falling slightly as the SECV managed its redundancy program and corporatisation changes while growth in electricity consumption slowed.

So far as labour productivity was concerned, the dramatic staff reductions in the latter years can distort comparisons with earlier years. Consequently, for a valid comparison over time, contracts and labour should be joined as one expense. The only expense item which includes labour and contracts also includes materials and miscellaneous as previously discussed. These expenses, as a percentage of revenue, did not fall over the last four years which leads to the conclusion that the redundancy program did not result in an immediate cost reduction, though it would be reasonable to expect a period of 'settling down' before the full effect of the program was felt.

On balance, the corporatisation period was not one where great improvements in operating performance were evident. Equally it is probably unreasonable to expect this to be the case when organisationally this was a period of great change. It seems reasonable to allow time for the changes to be implemented and settled in before conclusions are drawn about their effect.

Conclusions

The most striking finding from the corporatisation phase was the extent to which the SECV was a driver of change. It was not the reactionary inward-looking organisation that critics of the bureaucratic form would have expected. In turbulent circumstances the SECV monitored and adapted to its operating environment. Further, so far as Victorian Labor was concerned, the SECV initiated change and led Government reform, to an extent it worked to adapt the Labor Government to meet the SECV view of the future.

This outcome is of particular importance because it presents a case study of significant proportions that is in conflict with expectations drawn from bureaucratic theory and ideological beliefs regarding the motives of bureaucrats, the adaptability of public owned utilities and the intrinsic shortcomings of the bureaucratic form. The corporatisation period demonstrated what commercialisation had promised, that

a bureaucracy can make itself less bureaucratic, more flexible and can change the ways of the past.

This was also a period when the Victorian Labor Government became less relevant in the policy sense. The SECV was faced with a Government in decline and subject to widespread criticism for its financial management. Labor was under pressure from all quarters and was slow to take up the reform agenda of the Commonwealth particularly so far as corporatisation was concerned. The SECV seized this opportunity and pushed for change both publicly and internally, not in a manner designed to alienate Labor but in such a way that it facilitated such historically non-Labor preferences as severe staff reductions, and the sale of Loy Yang B 1 and 2. These policy changes were the very opposite to the preference of Cain's 'Keynesian welfare economics' and while they may be labelled simply the SECV and Labor changing with the times, it was the SECV that was overtly driving this change.

The 1992 SECV was less hierarchal, less bureaucratic and less paternalistic than the 1982 version. It no longer offered a job for life, had reduced its workforce by 30 percent and had taken on a commercial culture. The SECV complemented these 'real' changes with a minimalist approach to conservation, the Greenhouse effect and demand management. But it gave the appearance of really caring about such issues, the 1992 SECV recognised that it should do enough to pacify those exerting pressure in its operating environment. Unlike the 1982 SECV, the 1992 version monitored its environment and adapted accordingly. In so doing it behaved in a manner that was contrary to the expectations of critics of the bureaucratic form.

By 1992 the SECV's culture, structure and methods of operation were such that it was in a state of readiness to take full advantage of corporatisation. The only thing that was standing in its way was a Labor Government that has been far too slow to act. Had Labor proceeded more quickly with its corporatisation model, a more formally autonomous SECV may well have been able to demonstrate the start of expected efficiencies arising from its corporatisation phase. Unfortunately for the SECV its state

of readiness for corporatisation was also a state of readiness for privatisation: a course of action the Kennett Government embarked on soon after its election.

CHAPTER EIGHT

CONCLUSION

Introduction

The ten years to 1992 was a turbulent time for GBEs in Australia with national and international pressure to improve efficiency and effectiveness and to fundamentally change industry structures. In Victoria in 1982, the SECV was faced with this pressure for fundamental organisational change and the added challenge of instability in its operating environment caused by a newly elected Labor Government, bent on reforming and controlling its methods of operation.

This thesis has argued that the ten years of Labor from 1982 to 1992 saw three different but related management approaches influence the SECV. The first approach was managerialism and control, from 1982 to 1986 when Labor attempted to make the SECV more accountable. The second approach was commercialisation, from 1986 to 1989, when the SECV took the opportunity to put in place a more commercially oriented organisation. Commercialisation prepared the organisation for the dramatic changes that were to occur under the third approach, corporatisation, from 1989 to 1992.

The three approaches of managerialism, commercialisation and corporatisation were such that each subsumed its predecessor, while largely retaining that predecessor's characteristics. The consequence of this succession of approaches was that commercialisation retained many of the practices of managerialism and corporatisation retained both managerialist practices and commercial orientation. Under commercialisation and corporatisation, the SECV became increasingly less bureaucratic and moved further from its traditional paternalistic culture.

In 1982 the SECV was a mechanistic, paternalistic, male dominated, engineering driven, public utility that exhibited characteristics closely aligned with those of a highly bureaucratic organisation. For much of its 60-year history to 1982, the SECV had been concerned with meeting growth in demand as it electrified the State and as average electricity consumption increased. This history of striving to meet demand, when combined with the potential adverse impact of electricity rationing due to inadequate supply, resulted in a body with an ethos of building capacity as a core organisation function. Increases in generating capacity were traditionally founded on large power stations. Further, the history of the SECV and GBEs generally up to 1982 had been to fund capital expansion largely by debt.

Given this description of the SECV and, given the changes that Labor promised to make in Opposition, it was therefore surprising to find in the early years of the new Government very few fundamental changes were made to the SECV. Certainly the Government introduced a range of reforms and controls under its managerialist regime, from 1982 to 1986. These included a new Act with an emphasis on corporate planning, accountability and fostering electricity conservation and a new SECV Board drawn from a variety of disciplines and constituencies. However, the SECV simply absorbed these 'reforms' and 'controls' at the time and remained fundamentally unchanged. In the years up to 1986 it behaved as it had done for decades and was largely permitted to do so by Labor. The one notable exception to this broad finding was the preparedness of management to engage the organisation in consultation about the transition to a less bureaucratic, more results focussed SECV.

It was after 1986, when Labor became distracted, first by economic development imperatives, then a range of financial crises and finally with political survival, that the SECV embarked on a period of significant change. This period of change commenced with the commercialisation period, which was followed by a push for corporatisation and the sale of a core asset in Loy Yang B.

The most striking feature of organisational changes under commercialisation and corporatisation is that they were generated or fostered by the SECV. Certainly there

was considerable external pressure for change, but SECV management embraced this and pushed on while the Victorian Government procrastinated. This was a case of a bureaucracy doing the things that critics of the bureaucratic form argue they are not good at. The SECV demonstrated flexibility, reduced its number of reporting layers, devolved central control, implemented a less mechanistic structure and focussed on outputs. In other words, the SECV made itself less bureaucratic. An equally telling finding is that this metamorphosis was achieved with the same people at the top of the organisation: incumbents changed the SECV. Organisation change was not achieved by the introduction of new senior managers or new Board members. Apart from the appointment of Smith in 1983, and the natural attrition of Board members the only significant management change in the SECV under Labor was Smith's appointment as Chairman in 1990 and the promotion of his long time deputy, Bates, to General Manager.

The SECV improved its performance under the Victorian Labor Government. It was poised as a streamlined, corporatised and much more flexible body to take advantage of the major structural and philosophical changes introduced with commercialisation and corporatisation and make further advances in the 1990s. Instead the SECV was broken up and sold by the Kennett Government. It was not given a chance to operate as a corporatised GBE, as a simplified, flatter, organically structured organisation without the encumbrances of competing objectives.

This thesis has argued, that the theoretical and ideological weaknesses attributed to highly bureaucratic and mechanistic organisations did not apply in the case of the SECV. Based on this case, it is concluded that a bureaucracy can effectively monitor the operating environment and adapt. It can modify itself to become less bureaucratic and more efficient without having this imposed by Government or by a new management team brought in to introduce change. The case of the SECV is a rejection of the proposition drawn from bureaucratic theory, that bureaucracies cope with a turbulent environment by becoming more bureaucratic.

Key Findings

To focus research three study propositions were developed from the literature on bureaucracy. Those propositions addressed how the SECV was managed, key decisions which affected its future and how it coped with its external operating environment.

The basis of the study propositions was twofold. First was the popular view in the 1980s and early 1990s that fundamental structural 'reform' was required to break bureaucratic GBEs loose from the past. Second was the view held by critics of the bureaucratic form that bureaucracies faced with a turbulent operation environment tend to become more bureaucratic and inward looking and to make inappropriate decisions. The propositions were:

1. Management - The SECV culture and its bureaucratic approach to management would inhibit organisational flexibility and consequently would reduce its capacity to effectively predict, respond to and manage a rapidly changing operating environment.
2. Key Decisions - The SECV's key corporate and strategic planning directions and decisions, and concomitant financial and human resource management strategies would not, on balance, be appropriate.
3. External Operating Environment - The inability of the SECV to accept and adjust to the Labor Government's management ethos would retard its progress as an organisation.

Management of the SECV 1982 to 1992

It was established that the SECV in 1982 was highly bureaucratic and mechanistic. Further, it was engineering oriented, paternalistic and had a long history of building large power plants based on deterministic forecasts of growth in demand for

electricity. The definition of the SECV as highly bureaucratic and mechanistic was based on the characteristics of Weber's (1964) bureaucratic model. The SECV exhibited many of Weber's characteristics and those that Mintzberg (1979) attributed to his 'machine bureaucracy'. It followed that as the SECV was highly bureaucratic and mechanistic, that over the turbulent 1980s it should have exhibited a number of 'weaknesses' attributed to the bureaucratic form by critics such as Gouldner (1954), Crozier (1964), Merton (1968), Niskanen (1971) and Perrow (1986).

In essence, critics predict that bureaucracies will react to a changing environment by making themselves more bureaucratic. Further, those critics also predict that bureaucrats will act out of self interest, increase specialisation to cope with new functions and will establish taller hierarchies: which in combination further reduces the capacity of the bureaucracy to adapt. The weaknesses attributed to the bureaucratic form were distilled into the proposition that the highly bureaucratic SECV would have difficulty in responding to a volatile environment, that it would seek to cope by looking inwards, developing more rules and procedures and further reducing internal flexibility.

It was therefore expected that the highly bureaucratic SECV would have reacted to Labor's plans to control it and calls for fundamental 'reform' by becoming more bureaucratic. This proved not to be the case.

A Less Bureaucratic Bureaucracy

By 1992 the SECV was still a bureaucracy in terms of Weber's definition presented in Chapter 2, but it was decidedly less bureaucratic. Its structure was flatter (less hierarchical), there was less central control (a divisional philosophy was in part employed to replace the previous functional configuration), it was more organic (less mechanistic as many rules and regulations were no longer necessary) and its workforce was much more flexible (narrow position descriptions and demarcations were mitigated).

In addition to this, the organisation had undergone a major cultural change. A 'job for life' was no longer the case or the expectation; competition to provide internal services was accepted, as was competing with other providers in a national electricity market. The prospect of building generating capacity to meet a rapidly growing demand for electricity was of another era. The SECV had moved to prepare itself for the challenges of the 1990s.

A corporatised SECV emerged from a ten-year period under Labor, though it is argued that Labor did not drive this other than to facilitate an environment in which it could occur. The change was driven by the SECV and it was contrary to the direction that critics of the bureaucratic model would have forecast.

Corporatisation – Via Managerialism and Commercialisation

The SECV did not embrace managerialism. It narrowly interpreted its legislative managerialist requirements and set non-challenging targets and performance indicators. Because targets were easily achieved, the accountability that was fundamental to managerialism was not evident in the performance measures published each year by the SECV. As performance targets required Ministerial approval, it follows that Labor accepted these non-challenging targets.

The move to commercialisation from 1986 to 1989 was steady, planned and thoughtful. Plans were put in place to devolve central functions, to review future staffing needs and to involve staff in development of strategic directions. At the same time management fostered a range of 'commercial' or 'business like' changes to describe organisational functions with, for example, District Offices becoming Business Centres.

It was during this commercialisation phase that the SECV announced its intention to significantly 'downsize' the organisation and to adopt a more divisional, less functional, organisational structure with a concomitant reduction in central control. In contrast, during this period management issued a comprehensive, three-volume

manual for newly empowered managers to handle almost any conceivable situation in relation to employees. However, on balance this was a period where management prepared the SECV for reduced central control, devolution to divisions and significant employment reductions. This new direction was not instigated by the Minister or the Government. It was the case of a bureaucratic organisation preparing to make itself less bureaucratic and at the same time looking to increase its efficiency by downsizing. Two criticisms of the bureaucratic form are the claimed predilection of bureaucracies to become more bureaucratic and to increase in size and budget to personally satisfy bureaucrats. The SECV set the scene during its commercialisation phase, to do the opposite to this during its corporatisation phase.

It was the corporatisation phase from 1989 to 1992, where plans were implemented for the transition from a highly bureaucratic to a significantly less bureaucratic SECV. Again, the SECV drove and fostered this transition and again the reduction of bureaucracy by management was a striking feature. Levels in the hierarchy were reduced to a maximum of six, the SECV proposed the sale of Loy Yang B and promoted the benefits of competition via the national electricity grid. Fine-tuning of the organisational structure also included further devolvement and the isolation and separation of regulatory functions, a pre-cursor to such functions being removed from a corporatised utility.

The SECV managed change using an array of tools, including top down edict, consultation, rhetoric and orderly and planned information flows. Management changed the culture of a 'job for life' and the notion of large power station construction extending inevitably into the future. It did this by informing employees of its plans and by involving the whole organisation in a consultation program. Equally, when necessary management took unilateral decisions, such as to downsize by 30 percent, although even in that case, staff had been involved in the development of a 'Human Resources Plan'. SECV change management was comprehensive, collaborative and flexible; it was not exclusively bureaucratic and did not extend bureaucratic or mechanistic practices or organisational form.

During the phase of managerialism when Ministerial and Government control and involvement was at its greatest, the SECV absorbed such influences and did little to initiate organisational change. Though it is important to note that during this managerialist phase SECV management did survey employees and involve them in consultation on the future of the organisation, which it saw as decidedly less bureaucratic. However, from the mid-1980s the SECV underwent a significant metamorphosis which was largely at its own instigation and which had the effect of producing a less bureaucratic, more organic, more flexible and streamlined organisation. Furthermore, this change was achieved by people who, with the exception of Smith, had worked for the SECV for many years. They were engineers, steeped in SECV tradition and culture, with a history of bureaucratic management practices and a mechanistic structural form - yet they led and drove those changes. The proposition that bureaucracies make themselves more bureaucratic to cope with turbulence, was not supported by the research in this study.

The Appropriateness of Key SECV Decisions and Strategies Under Labor

Chapter 4 analysed SECV operating performance under Labor and in so doing isolated a number of key decisions that determined the shape of the SECV in 1992. Those key decisions related to Alcoa, power station planning and construction, debt over equity preference, electricity pricing and a major redundancy program. Those decisions also combined to significantly influence SECV operating performance over the period 1982 to 1992. A further key decision, the proposed sale of Loy Yang B, was critical as it represented a major philosophical shift for the SECV and Labor. This study has examined the appropriateness of these key decisions, in order to test the study proposition that in turbulent times bureaucrats make inappropriate decisions. Further, the process surrounding decision making was also investigated, to determine the extent to which Labor drove the corporate planning direction of the SECV.

Alcoa

The Labor and Alcoa relationship relegated the SECV to a minor role in negotiations and subsequently to the role of provider of subsidised electricity. After an Alcoa decision to defer the Portland aluminium smelter in 1982, there followed a period of negotiation between Alcoa and the Victorian Labor Government. The culmination of negotiations in 1984 was a Government direct equity investment in the smelter and an agreed base tariff and flexible tariff for the supply of electricity. Under the base tariff, Alcoa was subsidised by other SECV customers. The purpose of the flexible tariff was to insulate aluminium production from low product prices. This insulation was achieved via the Government paying the SECV part of the tariff when aluminium prices were low and receiving payment from the SECV when aluminium prices were high and tariffs were consequently high. Labor claimed the intent of the agreement was to provide for continuity of production and hence continuity of Latrobe Valley employment, not to retain Alcoa for Victoria by subsidising its operations.

The Cain Government was new, it was concerned not to 'lose' Alcoa and the Premier led negotiations. The SECV had been directed to keep out of the way in negotiations, with what was to become its largest customer. In addition to the subsidy that Labor built into the SECV base tariff, the flexible tariff cost the Government \$444million in payments to the SECV from 1984 to 1992. Alcoa was the SECV's largest customer by 1988, yet under Labor the big decisions on supply of electricity and its cost to Alcoa did not involve the SECV.

Power Station Planning and Construction

In 1976 the SECV was empowered by legislation to proceed with the 4000 MW Loy Yang power station project in the Latrobe Valley. Comprised of two elements of 2000 MW each, Loy Yang A and Loy Yang B, the power stations were a continuation of SECV practice of constructing large stations to meet a growing demand for electricity. In fact the demand forecasts on which the Loy Yang project was predicated proved to be highly optimistic. During Labor's time in office Loy

Yang A was installed and construction commenced on the first two units of Loy Yang B.

Decisions to proceed on schedule with the Loy Yang A and Loy Yang B construction programs occurred under Labor. Those decisions contributed significantly to the SECV's over capacity and debt plagued financial position during Labor's term. While it can be argued that the Loy Yang A decision was taken prior to Labor, it is also the case that Labor could have slowed Loy Yang A, and postponed Loy Yang B.

By 1984 the SECV had started to employ a new, more flexible, forecasting methodology. Its previous deterministic planning approach, described by Dreyfus (1998, 93) as 'incrementalist', had changed. However, the improved forecasting methodology was not reflected in any change in the 1980s to Loy Yang A construction progress or the 1985 and 1988 decisions to proceed on schedule with Loy Yang B. Labor took the decisions to proceed on schedule with Loy Yang A and B in the face of considerable excess capacity. It follows that either the new forecasting method did not yield superior results or, its findings were disregarded by Labor. The truth was a combination of both.

By the mid-1980s it was obvious to the SECV that earlier demand forecasts were optimistic and in error. Under the new forecasting regime, expectations of future growth in demand were revised downward. While forecasts were revised downward in 1984 they were still too high, with over-optimistic DMB economic growth predictions factored into SECV projections. In 1985 Labor decided to proceed on schedule with Loy Yang B. The Government drew comfort from SECV forecasts that Birrell and Stanley (1984) had refuted as optimistic in a report to Minister White. Labor's decision to proceed was taken when excess capacity was of the order of 1000 MW. The 1985 decision to proceed on schedule with Loy Yang B was political rather than practical and this was repeated in 1988, when Labor confirmed its commitment to Loy Yang B units 3 and 4, prior to the State election.

While Labor played a significant role in forecasting and construction decisions, this was not necessarily against SECV wishes. The SECV, up to the mid 1980s, was steeped in a construction culture, over capacity was preferred to the prospect of rationing and in 1984 it pushed for Loy Yang B to continue in the face of forecasts that should have led to a more cautious approach. The Government's motivation was driven by its commitment to economic development and employment in the Latrobe Valley. The SECV and the Government were willing partners in a push for construction up to the late 1980s, though the SECV was less enthusiastic about Labor's 1988 decision to proceed on schedule with Loy Yang B.

By 1990, both the SECV and Labor had lost enthusiasm for the later two units of Loy Yang B and the SECV was promoting the sale of its first two 500 MW units. The SECV took control of the process at this time, first slowing work on units 1 and 2, and then abandoning work on Loy Yang B units 3 and 4. The Loy Yang project was used politically by Labor and, while it can be argued that the SECV was culpable in this decision making, it is suggested that the Labor Government was the senior partner initially. The SECV led the way in the final years with the decision to slow the Loy Yang B units 1 and 2 construction program and abandon work on units 3 and 4.

Sale of Loy Yang B

Labor introduced a Bill in 1992 for the partial sale of units 1 and 2 of Loy Yang B. While the sale was not finalised under Labor, the proposal, which had been supported by the Liberal/National Opposition, was taken further by the Kennett Government and 100 percent of Loy Yang B was sold. The SECV had promoted the full sale of Loy Yang B from 1990, through both Smith and Bates, in a variety of forums.

The SECV motivation was overtly to reduce the need for further debt to complete the Loy Yang B construction program and to retire some existing debt with the sale proceeds. It is suggested that a second, less obvious SECV motivation was that

through its promotion of the sale of Loy Yang B, and its overt enthusiasm for competition via the national grid, the SECV was seen to be embracing structural reform and allocative efficiency initiatives. The SECV was doing this while attempting to protect the remainder of its generation business and its transmission business from calls for privatisation.

While the SECV promoted the full sale of Loy Yang B from 1990 and White also supported this in Cabinet, Labor took over two years to decide on a partial sale of 40 percent of the asset. However, the most crucial point out of the SECV push for the full Loy Yang B sale and the acceptance of the notion of a partial sale by Labor is that this would have been anathema to both parties in 1982. At the time of its election in 1992 Labor wanted to control the SECV and make it more accountable. The prospect of selling a core electricity asset was not contemplated in Labor policy documents. Even less likely in 1982 was the SECV actively seeking to sell 1000 MW of generating capacity. The paternalistic/bureaucratic SECV saw its purpose as the provision of secure electricity supply to the State. It would have been at odds with its 60-year history to sell any part of the SECV organisation. More significantly (for this thesis), it would have been at odds with the claimed weaknesses attributed to the bureaucratic form, for the SECV to actively seek to reduce its size and position in Victoria.

Critics of the bureaucratic model argue that in practice, bureaucrats increase budgets and make themselves more bureaucratic and inward looking. What could be more fundamentally opposite to this expectation, than the SECV actively seeking to reduce its sphere of influence and hence size, and to do this for the reasons of debt mitigation and the claimed benefits of competition? Debt mitigation was not only an acknowledgement of the need to improve the SECV balance sheet, but was also a reaction to external pressure regarding the size of public sector debt. The push to embrace competition was very much linked to external pressures. In both cases the SECV was not inward looking, but monitored its operating environment and adapted by changing decades old practices to push for a way forward that was entirely appropriate in the circumstances.

Debt Versus Equity and Electricity Pricing

Two key decisions, that in many ways determined the future of the SECV, were Labor's debt over equity preference and its electricity pricing policy. In the case of debt, Labor made it quite clear from 1982 that this was the principal option for financing capital expansion.

Labor's debt preference was in line with historical SECV practice, though prior to 1982 the call on SECV funds via a PAD was not as onerous, hence some internal funding was available for capital expansion in the 1970s. However, there was one significant difference in the 1980s from previous decades: interest rates were the highest of the twentieth century. In the mid 1980s the SECV was paying on average 13 to 14 percent interest on borrowed funds, which translated into a finance expense by 1988 of \$826 million, or 40 percent of revenue from electricity. Such interest rates did not deter Labor from its debt preference until the early 1990s when the political impact of debt became a major issue. By then it was too late to repair the SECV balance sheet prior to the election of Kennett, although the proposed sale of Loy Yang B would have greatly assisted. The SECV 'no new debt' policy announced in 1990, while too late, was another strong move to arrest its debt position, this decision also had implications for the Loy Yang B project which was largely funded by debt.

In addition to insisting on debt financing and making a significant call on net profit through the PAD, and hence restricting SECV potential to use internal funds, Labor further constrained the SECV through its ceiling on electricity tariffs. As noted in Chapter 4, had the SECV been able to increase tariffs by only 3 percent over the Labor years this would have had a compound beneficial impact, at historical cost, of \$632 million over the ten years. This additional revenue, which approximates the cost of one 500mw power station, could have been achieved while keeping tariffs under Labor, at 30 percent below the Melbourne CPI.

It can be argued that had Labor allowed tariff increases, these could have been translated into higher PAD and the SECV would not have derived a benefit. Equally it can also be argued that Labor's debt preference, its call on the SECV for significant PADs and the ceiling on electricity tariffs severely compromised the SECV's capacity to manage capital expansion. Like the decisions on Alcoa, power station planning and construction, Labor drove decisions on debt, PAD and electricity pricing. While it can be argued that such decisions were not, on balance, appropriate, it can also be argued that this had nothing to do with the bureaucratic form of the SECV – the Labor Government took these decisions. Notable exceptions were the SECV's 1990 'no new debt' decision and its push to sell the first two units of Loy Yang B – here the SECV took key decisions that were designed to arrest its debt position and improve financial performance.

SECV Redundancy Program

The SECV redundancy program saw the number of employees reduced from 21,551 to 14,827 over the three years to 1992. The catalyst for the SECV to make this change was provided by the Commonwealth Government's Structural Efficiency Principle (SEP) and award restructuring programs in 1987 and 1988.

Those programs also made it easier for Victorian Labor to support SECV downsizing. The fundamental issue remains that the SECV basically 'carried' poor work practices and excess staff for all of the 1980s. The reduction in employee numbers from 1989 was not completely translated into savings or labour productivity improvement, as there was some substitution of contractors for SECV employees. However, had the flexibility derived from addressing overmanning and poor work practices been available in the early 1980s, this would have made deferral of capital expenditure easier as there would not have been a direct job loss translation. Labor, as White confirmed, rather than address these issues during its managerialist phase chose to avoid confronting unions, and in fact exacerbated the SECV situation of overmanning and inefficient work practices in order to protect Latrobe Valley employment.

While the implementation of the redundancy program was assisted by attractive VDPs, the decision to reduce employment was greatly facilitated by SECV management's efforts over several years to prepare the organisation for an uncertain future. It was a decision that SECV management strongly promoted throughout the organisation, it was necessary and it was appropriate.

Decision Making Performance 1982-1992

On balance, the ten years to 1992 was a period of steady improvement in operating performance for the SECV. But it is staggering to think how much better that performance could have been if the key decisions and strategies under Labor had been appropriate to the SECV's circumstances. Labor encouraged and caused considerable excess generating capacity and investment in plant well ahead of when it was needed. Labor insisted that this investment should be funded by debt. Labor kept tariff increases at 33 percent below the CPI. Labor called on the SECV to make significant PAD contributions, at times in excess of net profit. Labor did not tackle Latrobe Valley overmanning or poor work practices until the SECV did this via the SEP in the late 1980s and early 1990s.

Given its exclusion from the Alcoa negotiations and the Labor Government's clear position on debt over equity preference, tariffs and the PAD, it seems reasonable that the SECV should not be judged on decisions surrounding these matters. However, on the crucial issue of power station planning and construction, the SECV was, on balance, a willing participant in Labor's 1980s approach. It was during the 1990s that the SECV pushed to slow Loy Yang B units 1 and 2 and ceased work on units 3 and 4 and therefore belatedly took decisions that, while appropriate, should have been taken years earlier. It was also in the latter stages of the commercialisation phase and then during the corporatisation phase that the SECV took the initiative and started to move on debt, overmanning and changing the shape of the organisation to cope with the challenges of the 1990s.

It can be argued that over the 1980s key SECV corporate planning directions and decisions such as debt funded investment in generating capacity and the below CPI tariff policy were not, on balance, appropriate. However, this study has also argued that such decisions were in large part taken by Labor, albeit in certain instances with SECV concurrence or acquiescence, and that consequently such 1980s decisions cannot be interpreted as inappropriate responses to turbulence by a bureaucracy. Decisions to slow progress on Loy Yang B units 1 and 2 and to abandon work on units 3 and 4 was driven by the SECV, as were decisions on 'downsizing' and 'no new debt'. These decisions were taken as the SECV reduced the extent of its bureaucratisation and changed the ways of the past.

It is argued that, as the SECV progressed under Labor, its decision making in turbulent times was, on balance, increasingly appropriate. This 'on balance' rejection of the study proposition must be treated cautiously. What has been argued is that as the SECV became less bureaucratic, its decisions became more appropriate to its existing and future circumstances. However, this loose correlation does not permit conclusions to be drawn about a causal relationship between extent of bureaucracy and the efficacy of decision making; there were too many variables in the SECV decision making process to permit this. The simple conclusion that can be drawn is that, on balance, the SECV did not make inappropriate decisions under Labor.

Management of the External Operating Environment

The proposition that the SECV would not, or could not, adapt to Labor's policies and management ethos and that this retarded its progress as an organisation was predicated on two assumptions. First, highly bureaucratic organisations find it extremely difficult to adapt. Second, that Labor's management ethos and concomitant policy framework in Government would largely replicate its policies in Opposition. Both assumptions proved to be incorrect. The first assumption was dismissed earlier when it was argued that the SECV was flexible, made itself less bureaucratic and was in fact adaptive. Consideration of the second assumption

reveals that the SECV was confronted with a variable management ethos and Labor policies that at times were ambiguous and on other occasions contradictory.

Considine (1992, 185) proposes that there were three distinct policy making styles under Labor. He described these as participant, managerialist and reactive. These three styles were evident in how Labor managed the SECV.

The participant style 'encouraged wide involvement, allowed broad and pluralistic forms of goal setting. Here is found all manner of initiatives to rectify the abuses of the past'. (Considine 1992, 185). The managerialist approach concentrated the Government on administrative change and internal order, with a focus on central goal setting and output-based accountability. Reactive policy making 'tended to put policy outside strategy and saw initiatives as means to satisfy particular social interests; to negotiate directly with them and to secure their co-operation or to silence their opposition' (Considine 1992, 186).

Considine suggests that while these three approaches are seen throughout the period 1982 to 1992 they 'can also be read as descriptions of the three-ages of policy making over the ten years, corresponding roughly to emergence, consolidation and decline' (1992, 186). This study demonstrates, that Government policy as it translated into management of the SECV was initially managerialist and this was combined with Considine's 'participant' style at a very early stage. Considine considers the most impressive policy making period under Labor to be 1983-1986 when there was 'a temporary marriage of participant and managerialist styles ... a ferment of innovation harnessed to a prudential management system' (1992, 186). This thesis has presented considerable evidence that brings into question Considine's description of a 'prudential management system', as it was during the period up to 1986 that SECV debt increased, Loy Yang A and B were progressed when they should not have been and costly negotiations with Alcoa were concluded. Further, during those years, Labor and the SECV comfortably accommodated each other through the acceptance of overmanning and poor work practices for the sake of industrial peace.

The SECV in many ways exemplified Labor's early years of managerialism and control. A reformed board, managerialist requirements enshrined in its legislation and aimed at increasing accountability, a focus on capital expansion (albeit unnecessary but certainly in line with Labor's Keynesian bent) and high debt. In the later Labor years there was considerably less managerialist control exercised by the Government. In those later years while both the SECV and Labor saw the benefits of corporatisation and other reforms it was the SECV which pushed on and took the initiative. The SECV followed the Commonwealth Government line while Victorian Labor, though not opposed to SECV initiatives, dithered. By the 1990s the SECV was seriously pushing to achieve productive efficiencies while encouraging allocative efficiencies via the sale of Loy Yang B and selling electricity into the national grid. This thesis argues that by the late 1980s there was an energy policy vacuum in Victoria, and that vacuum was filled by the SECV's steps to commercialise and corporatise, while the Labor Government focussed on more pressing matters such as Victoria's debt position and its political future.

The Labor Government's changing energy policy position, which was manifest in its management of the SECV, soon moved from a strong conservation position on election in 1982 to a pro-development position extolling the virtues of cheap power in Victoria. Later in its last term Labor again took up the conservation course but this time in combination with a concern over greenhouse gas emissions. The SECV adapted to this and overtly seemed committed, while not compromising its 'bottom line'. Over the ten years, Labor also moved from closely controlling the SECV to allowing it increasingly greater freedom, which the SECV utilised to commercialise and corporatise itself.

The proposition that the SECV would not, and could not adapt to Labor's policy and management ethos, proved not to be the case. It is significant that Labor's variable policies and management approach, and its preparedness to permit the SECV to disregard certain policies required even greater adaptability and flexibility by the SECV than would have been the case under clear policy direction. The SECV demonstrated an ability to adapt and while on certain issues, such as demand

management, it chose not to closely follow its legislative requirements; it did this with Labor's full knowledge. Further, where the SECV did not comply with legislative requirements introduced by Labor, this did not retard its progress as an organisation. For example, it can be argued that largely disregarding the conservation elements of demand management requirements, and focusing on its core responsibilities, actually assisted its progress. Finally, in the 1990s had the SECV waited for Labor to formulate and implement coherent policies it would have been in a far worse position in 1992.

The SECV in 1992

By 1992 the SECV had become a quite different organisation from the 1982 version. It had a flatter and less functional structure with less central control, it was less paternalistic and certainly did not purport to offer a job for life, had reduced the number of employees by some 30 percent, was much less concerned with bureaucratic processes and much more concerned with outputs, including customer satisfaction. In addition to these 'real' changes, it also gave the appearance, supported by minimalist actions, of being attuned to conservation and environmental issues and having a commitment to demand management programs. These latter actions were important not for their substance, but for the SECV's recognition that it should at least do enough to mollify those exerting pressure in its operating environment: not an SECV trait of the late 1970s or early 1980s. Culturally it had taken on a more commercial mantle in its corporate literature and public statements as well as in divisional titles and position designations; philosophically it had accepted that competition was imminent and was accepting and encouraging of the national grid and it openly supported the sale of Loy Yang B. This would have been anathema to the 1982 SECV.

The 1992 SECV was pragmatic, attuned to the world around it and was a reform leader not a follower. While it is difficult to look behind words and actions for motives, it was the case that apart from Smith nearly all 1992 SECV senior management had been long-term employees. By the time Smith was made

Chairman, he too had been an employee for some seven years. The drivers of change in the late 1980s and early 1990s were not introduced to achieve downsizing or corporatisation objectives; they were long-term SECV employees. Consequently, while their motives for change could be cynically attributed to self-interest, there is little evidence to support this claim.

It was also the case that by the early 1990s the SECV was able to function as three separate operating divisions. This meant that it could be broken up and sold much more readily than the overstuffed, highly centralised and bureaucratic 1982 version. Further, while the continuum of commercialisation, corporatisation and privatisation does not necessarily follow, it had historically occurred on a worldwide basis in the 1970s and 1980s. It is reasonable to expect that SECV management would have been aware of privatisation following corporatisation in many cases. Finally the Victorian Opposition was quite forthright in its intentions to introduce an economic rationalism to Victoria if elected and that this would include privatisation of certain public utilities. Whether SECV management expected it or not, it does follow that their actions in the early 1990s made it easier for the Kennett Government to sell off parts of the organisation. The counter to this is that SECV corporatisation and organisational streamlining was indicative of a management bent on improving efficiency and effectiveness and openly competing with the private sector and interstate suppliers to deliver reliable low cost electricity.

By 1992 the SECV had made itself less bureaucratic, less mechanistic, less paternalistic, more flexible, more streamlined, more commercial, more outward and less inward looking and had taken on a different cultural 'feel'. Operationally, it had arrested interest expense growth by controlling debt, increased productivity significantly, reduced RPM and attacked overmanning. All of these things made it well poised to deliver improved performance but they also made it much more readily marketable both financially and politically.

Further Research

A difficult issue in a study such as this was to determine what to consider and where to stop as the research raised a number of most interesting questions such as Smith's role as a change agent, the progress of other GBEs in the 1980s and the more general impact of the Victorian Labor Government. A study of the role of Smith as the driver of SECV change might explore the extent to which the organisational leader can change the organisation without replacing key people. Smith's role seemed to be central to so much that occurred from 1986 to 1992 and a number of people including White, Gibson and Herington referred to his strength as a strategist. This study was such that insufficient attention could be devoted to developing a deep understanding of Smith's role as a leader.

A comparative study with other Victorian utilities such as G&FC and MMBW could investigate how they coped in the 1980s and whether they became more or less bureaucratic. Such research would assist in assessing if this study's rejection of the theoretical weaknesses attributed to highly bureaucratic organisation, has more broadly based empirical force. It seems that much of the celebrated criticism of bureaucracy, which was drawn from non-Australian experience and written some 20 to 50 years ago, is accepted as a contemporary truism, without the benefit of contemporary empirical study. It would be most beneficial for future debate if the work of those earlier writers and the tenets of public choice and agency theory could be tested against the tenets of a modern bureaucracy, but from an empirical not a theoretical perspective.

A final area of further research could be to consider the impact of the Cain/Kirner Government's influence on a range of GBEs. Such a study would permit broader consideration of Labor's policies and management ethos and assist in determining if the SECV case was representative of other GBEs. Further, this study would permit conclusions to be drawn regarding Labor's impact on general GBE performance.

Conclusion

SECV operating performance over the Labor years was one of steady improvement in productivity, capacity utilisation, debt mitigation and in preparing the organisation for the 1990s. Performance was not outstanding by Australian electricity industry standards but in the context of the Australian economy generally it was a period of sound achievement. A number of major issues also required management over the period. Here performance was variable. In the case of Alcoa, Cain basically relegated the SECV to the role of observer though the SECV did receive compensation for tariff subsidies above the base rate tariff. The single biggest operating issue was management of a major redundancy program; this was handled well and while it can be argued that the SECV bought peace with the packages offered the result was a more streamlined and flexible organisation.

In addition to day-to-day operations and a range of major issues, there emerged over the period several other pressures that required management. The most profound of these was the pressure to corporatise led by the Commonwealth Government. The SECV 'read' this influence in its operating environment and in a controlled and measured way moved towards corporatisation via commercialisation. Importantly management, while behaving in a directive manner at times, involved the organisation in a comprehensive communication and education program. The organisation changed both formally and informally in a profound way and with little disruption.

Strategically it took some time for the SECV to move from its large power station construction preference and evidence has been presented of how it worked with the Labor Government in the 1980s to continue this approach. While it is clear that this was not wise for the SECV the fact remains that the construction program suited both Labor and the SECV in the 1980s. By the 1990s and with a 'no new debt' policy in place the SECV was prepared to sell all of Loy Yang B and openly pushed for this. The SECV changed its position on generating capacity from the early Labor days, when it saw continuous large power plant construction as important to when, by the

late 1980s, debt mitigation was of greater importance. The SECV was prepared to adapt to accommodate its changed circumstances and its changed operating environment.

The most striking finding of this thesis was the discovery that the predictions that emerged from the literature of critics of bureaucracy, were not proven in the case of the SECV. The SECV became less bureaucratic and it achieved this largely at its own instigation and with long-term employees. It reduced its hierarchy and devolved central control. It reduced staff by over 30 percent and with it, the notion of a job for life. It achieved all of this within a turbulent operating environment and an ambiguous policy environment. The SECV made itself less bureaucratic in order to more efficiently and effectively meet the challenges of its operating environment. Ironically, the many changes the SECV made both operationally and philosophically made it a much simpler task for the incoming Kennett government to privatise it.

It can be argued that one case is not necessarily representative of how other bureaucracies might manage a turbulent operating environment in the future, and this is accepted without question. It is also true that in the case of the SECV, a real example exists of a large bureaucracy adapting to its environment by becoming less bureaucratic by choice. Through this example it is hoped that the work in this thesis, has added to the knowledge of organisations and management and will perhaps encourage scholars to critically review that body of theory, which claims that bureaucracies cope with turbulence by becoming more insular and more bureaucratic and, consequently, less efficient. Bureaucracies in fact, can and do, reinvent themselves and make themselves more efficient. The great pity in the case of the 'new' SECV is that, having prepared itself for the challenges of the 1990s, it was broken up and sold before it had a chance to demonstrate what it could do.

LIST OF ABBREVIATIONS

ABS	Australian Bureau of Statistics
ACTU	Australian Council of Trade Unions
AG	Victorian Auditor General
AIRC	Australian Industrial Relations Commission
ALP	Australian Labor Party
ALPME	Australian Labor Party Minerals and Energy Policy
ALPR	Progress Report on Victoria's Economic Strategy 1986
BEI	British Electrical International
BIE	Bureau of Industry Economics
CCV	Coal Corporation of Victoria
CGM	Chief General Manager
CMP	Cresap, McCormick and Paget Inc
CPI	Consumer Price Index
CSO	Community Service Obligations
DITR	Department of Industry Technology and Resources
DITRAR	Department of Industry Technology and Resources Annual Report
DITRCD	Department of Industry Technology and Resources Corporate Direction 1987
DITRPB	Department of Industry Technology and Resources Program Budget
DM	Demand Management
DMB	Department of Management and Budget
DMDP	SECV/DITR Demand Management Development Project
DME	Department of Minerals and Energy
DMEAR	Department of Minerals and Energy Annual Report
EBIT	Earnings Before Interest and Tax
EBRC	Economic and Budget Review Committee
EDSCP	Electricity Development Strategy Consultative Panel

EDSIR	Electricity Development Strategy and Implementation Review
EF	Energy Forum
EPAC	Economic and Planning Advisory Committee
ERD	Employee Relations Department
ESAA	Electricity Supply Association of Australia
ESD	Electricity Supply and Demand to the Mid 1990s
GBE	Government Business Enterprise
GFC	Gas and Fuel Corporation
GIO	Government Insurance Office
GTE	Government Trading Enterprise
GW	Gigawatt
GWh	Gigawatt hour
HRM	State Electricity Commission Human Resources Manual
IAC	Industries Assistance Commission
IAESR	Institute of Applied Economic and Social Research
IC	Industries Commission
IRF	Independent Review of Victoria's Finances
KES	Economic Statement by Joan Kirner 1991
kWh	kilowatt hour
LCUP	Least Cost Utility Planning
LTI	Lost Time Injury
LVE	Latrobe Valley Express
MEJ	Minerals and Energy Journal
MMBW	Melbourne and Metropolitan Board of Works
MOA	Municipal Officers Association
MW	Megawatt
MWh	Megawatt hour
NREC	Natural Resources and Environment Committee
NSC	National Safety Council
OECD	Organisation for Economic Cooperation and Development
PAD	Public Authority Dividend

PBRC	Public Bodies Review Committee
PIP	Production Improvement Program
PRES	Progress Report on Victoria's Economic Strategy to the Business Community
PRPD	Power lines Review Panel Draft Report
PSMI	Public Sector Management Institute
QEC	Queensland Electricity Commission
QPM	Queensland Government Task Force on GTE Monitoring
REAP	Restructuring and Efficiency Principle
REP	1985 ALP Resources Election Platform
RPA	Reform of Victoria's Public Authorities
RPM	Reserve Plant Margin
SBV	State Bank of Victoria
SCNMP	Steering Committee on National Performance Monitoring of Government Trading Enterprises
SECACT	State Electricity Commission Act 1983 as Amended
SECAR	SECV Annual Report
SECCS	State Electricity Commission Corporate Strategy
SECHR	SECV Human Resource Manual
SECM	State Electricity Commission Magazine
SECN	State Electricity Commission News
SECPM	State Electricity Commission Personnel Manual
SECV	State Electricity Commission of Victoria
SEP	Structural Efficiency Principle
SPB	State Electricity Commission Strategic Planning Board
SPC	Special Premiers Conference
TFP	Total Factor Productivity
TIP	Treasury Information Paper 1991
TOT	Terms of Trade
VALP	Victorian Labor Party's 1985 Election Platform
VCA	Victorian Commission of Audit

VEDC	Victorian Economic Development Corporation
VEP	Victorian Energy Plan
VEPN	Victorian Energy Plan Newsletter
VET	Victorian Equity Trust
VGES	Economic Strategy for Victoria – Detailed Papers
VGES3	Economic Strategy for Victoria – Statement No 3: The Portland Aluminium Smelter
WB	World Bank

GLOSSARY OF ELECTRICITY INDUSTRY TERMS

Availability	For a given period the availability of generating plant to produce energy as a percentage of total energy production at full output under continuous operation.
Base Load	The proportion of annual power demand which is constant.
Capacity	A measure of maximum instantaneous electricity output, usually measured in Megawatts (MW).
Capacity Factor	For a given period, the actual energy produced by generating plant compared with total energy production at full output under continuous operation.
Cogeneration	The generation of electricity from an unrelated process such as the use of waste heat from a furnace.
Demand Management	The planned employment of techniques and policies by energy providers to influence electricity consumption, it includes both load management and conservation.
Energy	The measure of the amount of electricity used over time. The usual units of measurement are GWh, MWh and kWh (see Power and Energy Units).
Excess Capacity	The percentage of generating capacity which is above the Maximum Coincident Demand plus a prudent Reserve Plant Margin.

Maximum Coincident Demand	The peak daily demand on the generating system in any one year.
Power	The measure of instantaneous demand for electricity. Usual units are GW, MW and kW (See Power and Energy Units).
Power and Energy Units	Electricity: Power (or Capacity) watt (W) kilowatt (kW) - 1000W megawatt (MW) - 1000 kW gigawatt (GW) - 1000 MW Electricity: Energy kilowatt-hour (kWh) megawatt-hour (MWh)- 1000 kWh gigawatt-hour (GWh) - 1000 MWh
Power Grid	The transmission component of the electricity supply system.
Reserve	The additional generating capacity held in reserve to account for maintenance and breakdown.
Reserve Plant Margin (RPM)	The percentage of generating capacity of the interconnected system that is above the maximum coincident demand (MCD) for electricity in any one year. A prudent RPM is of the order of 20 to 25 percent. Generating capacity which exceeds that required to meet MCD plus a prudent RPM is excess capacity.

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APPENDIX 1

TRANSCRIPT OF INTERVIEW WITH IAN GIBSON,

24 OCTOBER 1996

Interview conducted by Tom Evans with Ian Gibson, SECV Commissioner from 1983 to 1992, on Thursday 24th October 1996 at the City of Maribynong Offices , Footscray.

Tom Evans. Thank you for participating. Just for background, prior to the election of the Cain Labor Government, what relationship did you have with the SECV?

Ian Gibson. Well as an academic lecturing economics at Gippsland Institute, and an active member of the community, I suppose it would be impossible not to have a connection with the SEC in the Latrobe Valley community. The SEC culture completely dominated the Valley at the time and permeated the rest of the culture. But I suppose I had developed through my connections to the environmental movement and in community organisations, particularly the Latrobe Valley Community Forum, an interest in SEC planning, and through my professional interest in economics an interest in electricity pricing.

TE Did you have any political affiliations? Were you a member of the ALP?

IG I was a member of the ALP for a few years, and probably at the time of the change of government.

TE You were appointed to the SECV board in 1983?

IG March 83, and after a really interesting process that David White established when the SEC Act was changed, and the Board was expanded. They defined types of people wanted, types of interests to be represented ...in groupings. And David White was keen to get somebody who the environmental groups would find acceptable. So he contacted a few of the major environmental groups; CCV,ACF and the Latrobe Valley Community Forum, and asked each to put in a couple of names. He then invited representatives from each of those bodies to a meeting at Flinders Street, where he shut them in a room and told them they had to agree on two names.

They agreed on my name , and one other, which they handed to David who then made a decision to appoint me. And I think from speaking to him subsequently, the logic was that firstly, I was acceptable to the environmental groups, but secondly the fact that I was from the Latrobe Valley was a bit of a bonus. So much of SEC activity was based there and my professional background in economics helped a bit, because it spread the disciplines on the board a bit, which previously had been very much engineering and accounting. He was keen to get different perspectives on the board.

TE As a new board member, what impression did you have prior to your first meeting with SECV management; were those views reinforced or was the reality different?

IG Prior to the changes David White encouraged with a fairly 'hands on' approach as Minister. My general view of management was rather inflexible but intelligent, well resourced and coming from a very narrow philosophy of energy policy, and with a couple of 'old stagers' who were sort of heavyweights in the organisation who had developed almost a hero status but who had just retired or were about to retire.

TE Was Jack Johnson one of those?

IG He was and the other was Chapman the head of Supply. He struck me at my first Board meeting when the issue of energy labelling came up. The Chairman presented a very strong case that it was absolutely impossible to do anything about it. It just struck me that this perspective was one of the old style and that it was a matter of time before we changed them, it just reminded me that it was going to be a fair sort of a job. My general view about management was , with some exceptions, very personable sort of characters but a very narrow mould.

TE Can you describe the role of Charles Trethowan, was he chief executive when you arrived.

IG No Kevin Connolly was acting and Jim Smith was appointed shortly afterwards. I never saw Charles Trethowan as Chief Executive Officer, but he would have been a much more effective Chairman than a Chief Executive. He wasn't too strong strategically, but I've never come across a more charming man who was as widely respected within an organisation as he was. He had absolutely remarkable people skills and he ended up playing a really positive role in providing a link between old

and new. Now, I suspect a lot of people wouldn't agree with that, but I do think that there elements of old cultures that are always a big positive and that a total bloodletting can really be most inappropriate for an organisation. The reality of change in the SEC through the 1980's, was that it was very, very rapid, very substantial and driven by extremely effective managers, particularly Jim Smith. Charles increasingly provided a link with the past, but was quite open to change, he was a good salesman compared to Jim whose personal skills were nowhere near Charles'.

TE Jim Smith was more task oriented?

IG He could be extremely blunt, extremely prickly for people. Where Charles' strategic skills were ordinary, Jim's were stunning.

TE Was one of the changes you wanted to see a different forecasting approach?

IG Definitely a more up to date methodology in forecasting. The Jack Johnson era was absolutely symbolised by the twenty one power stations. You forecast the level of demand and then you forecast the level of capacity needed to meet those demands. Under Kingsley Culley that started to change. Forecasting was brought together a bit. It didn't immediately work, there was a bit of reluctance from other parts of the organisation to accept the methodologies. It didn't take long for the sort of scenario approach to start permeating into thinking, and there the major step was from responding to demand into what became the NREC inquiry on balancing supply and demand. Up until then the thinking had been very much on determining the level of demand and in producing capacity. The NREC inquiry was the turning point, just the naming, when demand issues became a part of management also, as well as supply issues.

TE When you mention scenario planning can you comment on the move from a deterministic approach to a probabilistic ?

IG Kingsley Culley drove that through the organisation as much as anybody , and without a great deal of difficulty because of the cost of lousy decisions. Lousy capacity decisions were so great, and indeed, what the board did more than anything else over the ten years I was there was defer capital.

TE What were the biggest things that happened in those ten years?

IG The really momentous ones are often the little ones. Previously people would have said the decision to build Loy Yang B, but now probably not. Probably decisions like pricing , like the no new debt policy introduced in 1989.

TE No new debt really was a major policy shift?

IG That's right . So that was really important , again it was not just the no new debt policy but what was underlying , which was a desire to restructure finances.

TE When you joined the SECV did you have any idea that you would be deciding to sell Loy Yang B. In 1983 was that in any part of your mind?

IG No the decision was momentous, but again by itself, wasn't a huge one because little things preceeded it . The Victorian Equity Trust which was much smaller and was only a half fair dinkum version of getting private capital into the industry was at the time almost as hard a decision philosophically.

A fundamental issue was the recognition that a national competitive market was not only inevitable, but it was something we should try and hurry along. This was gigantically important because it in turn led to the downsizing and turning it into a much more competitive organisation in more of a hurry than otherwise might have been the case.

TE When we look at 1989 and staff numbers.

IG October '89 were the first VDP's but numbers were starting to decline prior to then in recognition of this competitive market. The Activities Review that Jim Smith pushed through in 1985 was a terribly

important effort in trying to rationalise the operation , it didn't work terribly well but it did generate some reduction in numbers in its own right. Again the momentous decision wasn't the VDP's it was the realisation of the competitive market decision.

The way the Commission dealt with the environment was very important . People like Harry Sharpe were very important in driving that. In 1982 the SEC's environmental performance was very much a reactive , defensive sort of approach. I reckon that by 1992, with a lot of very excellent work in demand management , greenhouse and a whole lot of other areas, it was proactive.

We were almost leading the debates , which in turn , politically was extremely significant. Probably the pollies would say that the SEC was pushed into it and to a degree they're half right but in the end there wasn't a lot of reluctance because there was an acceptance that it would promote SEC interests which was the way to go.

TE I have a 1983 memo from you in which you were critical of the SECV's community consultation approach , can I extend that to say that you felt that consultation also improved?

IG Yes, very much so and indeed in the end driven more by David Scott than me and generally it was pretty well accepted that consultation wasn't a hurdle, which was certainly the Jack Johnson approach, but something that can generate a better result, both technically and economically in terms of the quality of the development and also in implementing results. The politics was heaps better and some worked , some were done alright and some not so good.

TE That leads me to one of the not so good, The Richmond to Brunswick transmission line always comes up when the SECV in the 1980's is discussed. How was it handled?

IG Really badly for a long time. The Board really struggled with it because management never really grasped the political sensitivity of the issue and the need to use a new paradigm. In the end it took a few changes of personnel and management which were driven by Jim Smith and David Scott being appointed to chair the Brunswick Panel. The Panel was pretty effective because you had Mary Crooks and Peter Manger who provided some really interesting skills to complement David's. In the end, partly through the Panel, partly through the Minister and the Department and the SEC we finally got it through our thick heads that we needed a different paradigm and once that was agreed the solutions came out really easily.

TE Over the ten years to what extent was the board autonomous and to what extent influenced by government?

IG The board used to not have a lot to do with the Ministers. We would probably meet once or twice a year with Ministers and then at Annual General Meetings. But there were weekly meetings between the Minister and the Chief General Manager, and obviously there was a fair amount of interaction between the Minister and management level.

TE Was there any impasse ever reached?

IG I think the relationship between SEC management and Board and the Minister was very good. There were differences between them, David White and Andrew Herington oversaw very rapid change but generally were very well regarded within the SEC even though they had hard jobs to do. There were occasions of direct political intervention or conflict For example was one case of PAD where the Government one year wanted more than profit. Now that's very bad news. In the end we were required to pay and that was a most unattractive circumstance. It was sort of direct political control I suppose.

TE That wouldn't have been the energy Minister, it would have been DMB.

IG Correct. The political intervention wasn't just through our Minister. But there certainly would have been issues of conflict because if you meet weekly that's what you're going to be doing. However the Government had had a much more significant impact in terms of the structure that they established, the policy framework and the culture. The political culture when talking about consultation and environmental issues. Seldom were there great debates about whether to do it or not. I think the government was extremely significant but not in a conspiracy theory type of way. At the same time I

think the SEC became substantially more skilled at dealing with the political environment. They had almost become marginalised in the early 80's, they were out of date and irrelevant in the political scene and by the end of the 80's had substantial contributions to make.

TE Labor brought a new philosophy to the SECV?

IG Absolutely, and in the way the SEC tried to lead debate. Things like Annual General Meetings, which was a tiny little element of opening up the organisation. Just the fact of their existence and that they were run in a really open sort of way just changed the vibes of the place.

TE Do you have any regrets about reforms you would like to have seen that you didn't have a chance to implement?

IG The programs introduced were starting to really bite a bit when the change of Government occurred and they were thrown completely out the window. I would have liked to have seen the reforms and the demand management program which was up and coming with the best in the world. One of the regrets is the way in which the decline in numbers was managed, not the fact that there was a decline, but it was badly managed especially from the viewpoint of the Latrobe Valley. I mean it doesn't matter in Melbourne, but in the Valley it just devastated the community and the SEC certainly wasn't active enough. One of my regrets that perhaps the Latrobe Valley's representative on the Board wasn't able to get across the impact of the changes and I wasn't creative enough in explaining how these negative impacts could be ameliorated if there was a bit more of a positive economic development role played by the SEC.