

THE STATE AS MANAGER

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Increasingly popular in many developing countries, public enterprises play a critical role in key sectors of the economy — utilities, industry, finance, and trade — contributing 10 to 15 percent of value added to the economy annually. Bangladesh, for example, has over 500 public enterprises in the industrial sector alone.

The rapid expansion of public enterprises in the past 25 years has not, however, been accompanied by research on their role or an assessment of their contribution to each country's development objectives. Because of the serious management and economic problems plaguing these enterprises, understanding, analyzing, and improving their performance is now a priority.

This is what researchers from eight Asian and four Caribbean countries set out to do in 1975 and 1976, with IDRC support. Now completed, the studies gathered information about the rationale behind public enterprises, their size, legal and administrative forms, control and management structures, and pattern of evolution.

GROWTH AND GOALS

Why and how the State takes on the role of manager or entrepreneur has been largely determined by the character and composition of the economic elite in each country, the nature of the political process, and by objective conditions. Thai and Philippine rulers, for example, established public enterprises in the 1930s to prevent control of basic utilities and services by Chinese and American capital.

The ideological outlook of political regimes does not guarantee a consistent approach to public enterprises, however, if actual socioeconomic circumstances require immediate action. For example, the nationalization of various private enterprises in India in the face of shutdowns, and the government sponsorship of several factories in Sri Lanka (then Ceylon) during the Second World War, are deviations from public policies in response to unexpected factors.

According to the researchers, the approach towards public enterprises in mixed economies will continue to be flexible. This flexibility has led to a changing of government positions on public enterprises. The analysis of this flexible approach shows that changes in the size and importance of public enterprises are not significant: they survive as important devel-

opment instruments and organizations, and efforts to improve their performance will receive high priority from policymakers.

The most serious problem affecting the management and performance of public enterprises is an incoherent goal structure. Seldom have the goals of public enterprises been clearly related to national goals. In many countries, public enterprises are being expanded without serious consideration of why, how, and to what extent they should be used in specific sectors. The creation of specific enterprises, often based on ad hoc decisions, is rarely preceded by a serious examination of their role in the national economy.

In some cases, the goals are articulated, but they blend social and economic objectives that often conflict with each other and no indication is given as to which should be emphasized at a given time. The presence of diverse goals — ranging from providing employment and creating self-reliance to enhancing national prestige — does not need to create problems, however, as long as the controlling agencies, managers, and clientele are aware of which are to be emphasized when, and second, what allowance is to be made for goal displacement in evaluating performance.

Several of the studies indicate that there is a great need to systematically examine alternate ways of achieving goals. They recommend that public enterprises as an economic policy

should be reassessed, that existing public enterprises be consolidated and brought under efficient management and control, and that any future expansion be preceded by a critical review of alternate policy instruments.

POLITICS, FINANCE, AND PEOPLE

Political interference reducing operational autonomy is also a major problem. In several cases it has been shown that public enterprises are being used for political patronage in the form of employment. This has resulted in increased labour costs.

Several financial problems face public enterprises: capital-debt-equity ratio, pricing policies, taxation, and investment policy. Different types of capitalization have been adopted by public enterprises, and the problems are mostly due to a lack of clear understanding between the government and the enterprise of how initial and operating capital are financed. The proliferation of public enterprises has also led to a dissipation of meagre resources.

It has also been noted that public enterprises' pricing and investment policies are seldom linked to their stated objectives. This had led to confusion of pricing criteria and, often, to an inappropriate performance assessment. It is well known that where commercial considerations dominate, pricing policies are based on cost plus profit. Where social considerations rule, pricing policies may be determined by such factors as purchasing power. Whatever the case



The role of public enterprise in development needs careful reassessment

may be, managers of public enterprises must be trained accordingly, and they should in turn keep detailed records of actual operating costs. But financial statements of public enterprises are often not kept up to date, making it difficult to obtain the data needed for timely managerial decisions.

The project reports and other studies show that no uniform management style and organization can be prescribed for public enterprises, as these must be adapted to local conditions. It is pointed out, nevertheless, that public enterprises, once established, should be managed and operated at the highest level of efficiency. While efficiency can be judged by profitability, there are independent yardsticks to evaluate performance: capacity utilization indicating input/output ratio, and production/consumption coefficients. It is recommended that public enterprises be encouraged to develop their own corporate plans in relation to sectorial and national plans.

Human resources are yet another constraint. Technical and managerial skills were found to be inadequate in many public enterprises. Additionally, it was seen that many managers and technicians did not have a clear understanding of the role and importance of public enterprises in the economy of their respective countries. Many reports suggest that as public enterprise managers and technicians are neither bureaucrats nor private enterprise employees, they should have their own ethics and operational styles. They therefore recommend that public enterprises have their own training, incentive, and motivation systems.

AUTONOMY AND ASSESSMENT

An important conclusion emerging from the studies is that incentives and autonomy are closely related to enterprise performance, and that non-monetary incentives are as important as monetary ones. For example, the interest manifested by the President of Korea and his Ministers in the productivity of public enterprises and in the selection of executives influences their performance. One can suggest that there is less tolerance of managerial inefficiency and ineffective leadership in Korea than in other countries studied.

A common finding in all the countries studied is that control structures affect management. Essentially, the primary control on management is expressed in the appointment of top managers. In many cases, government bureaucrats and military officials are granted these positions.

This has led to a conflict of interest, undesirable influence on the top management's behaviour, lack of managerial expertise, widespread risk-aversion, and managerial discontinuity.

It was also found that in almost all cases, the system for evaluating the efficiency and performance of management in public enterprises is inadequate. Each sector of society and every government department applies different criteria. Public enterprise managers, often under pressure from controlling agencies as well as from their clientele, tend to be confused. In many cases, they use the classic criteria of financial profitability, but in several cases, poor management is excused under the pretext of providing social benefits.



The difficulty in evaluating overall performance on the basis of the broad set of objectives with which public enterprises are entrusted has been shown to be fourfold. First, the order of priorities has not been specified, even in vague terms, by the government. Second, no attempt has been made at quantifying targets. Third, in spite of the contradiction between at least some of these objectives, the pertinent trade-offs are not stated. More important, the government has not committed itself to subsidizing enterprises pursuing noncommercial objectives. Finally, by expecting public enterprises to pursue national objectives, while placing undue stress on commercial profitability, they are sometimes made to disregard their main objective of satisfying society's needs.

What is needed at this stage is experimentation with selected approaches and methods for evaluating both management and enterprise performance. Such evaluations should also take into account the quality and efficiency of the public adminis-

tration system in which the enterprises are operating, as well as the efficiency and performance of private enterprises, preferably in the same sector.

NEEDS AND ACTION

The development of a senior management cadre that can provide a supply of trained, competent staff for middle and senior management positions in public enterprises and various controlling agencies is also a priority. But in most countries studied, the rapid expansion of public enterprises has not been accompanied by a comparable growth in training, research, and consultancy facilities. International and regional training and research institutions can play a major role in encouraging, supporting, and even initially undertaking activities towards the establishment of the needed facilities.

The research teams also recommend that four action research programs be carried out to improve public enterprises' performance. The first would seek to develop goal structures and integrate these goals at the national, sectoral, and specific enterprise levels. Experimental studies are also needed to see how public enterprises can be evaluated and what criteria and mechanisms can be used. Comparative studies of the efficiency of private and public enterprises in the same sector would yield guidelines for improving efficiency. Finally, a selective research program should be undertaken on various types of linkages between public enterprises and their controlling agencies to determine their impact on management and performance.

The major thrust for improving public enterprise management must come from national and sub-national institutions in each country. There is a role, however, for international and regional agencies in stimulating, encouraging, supporting, and complementing these activities. Various linkages — research networks, training programs, consultancies, technical assistance and exchange of staff, exchange of information, and regional and international association — can be established to support national, regional, and international institutions. In addition, international and regional institutions can serve as clearing houses for information about management processes and tools in other countries. □

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