



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

## FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)



**TOGETHER**  
*for a sustainable future*

## OCCASION

This publication has been made available to the public on the occasion of the 50<sup>th</sup> anniversary of the United Nations Industrial Development Organisation.



**TOGETHER**  
*for a sustainable future*

## DISCLAIMER

This document has been produced without formal United Nations editing. The designations employed and the presentation of the material in this document do not imply the expression of any opinion whatsoever on the part of the Secretariat of the United Nations Industrial Development Organization (UNIDO) concerning the legal status of any country, territory, city or area or of its authorities, or concerning the delimitation of its frontiers or boundaries, or its economic system or degree of development. Designations such as “developed”, “industrialized” and “developing” are intended for statistical convenience and do not necessarily express a judgment about the stage reached by a particular country or area in the development process. Mention of firm names or commercial products does not constitute an endorsement by UNIDO.

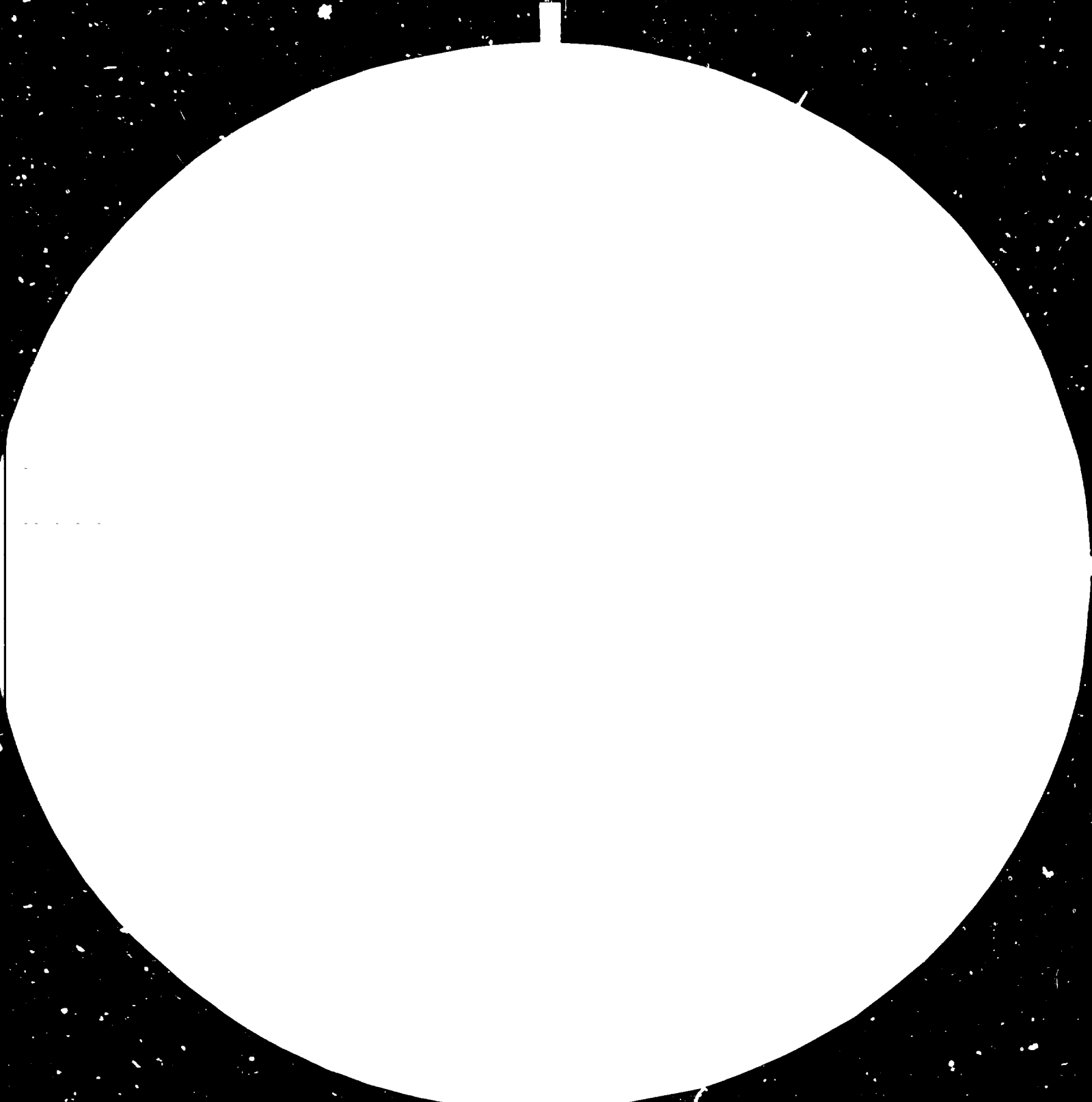
## FAIR USE POLICY

Any part of this publication may be quoted and referenced for educational and research purposes without additional permission from UNIDO. However, those who make use of quoting and referencing this publication are requested to follow the Fair Use Policy of giving due credit to UNIDO.

## CONTACT

Please contact [publications@unido.org](mailto:publications@unido.org) for further information concerning UNIDO publications.

For more information about UNIDO, please visit us at [www.unido.org](http://www.unido.org)





2.8 2.5





10713



Distr.  
LIMITED

ID/WG.343/6  
3 September 1981

ENGLISH

United Nations Industrial Development Organization

---

Expert Group Meeting on the Changing Role  
and Function of the Public Industrial  
Sector in Development

Vienna, Austria, 5 - 9 October 1981

STRUCTURAL CHANGES IN THE AUSTRIAN  
PUBLIC INDUSTRIAL SECTOR \*

by

Friedrich Ullmann\*\*

Renate Meissl\*\*\*

001

---

\* The views expressed in this paper are those of the authors and do not necessarily reflect the views of the secretariat of UNIDO. This document has been reproduced without formal editing.

\*\* Economist, Planning and Holdings Policies Section, CIAG, Vienna.

\*\*\* Economist, Financial Planning Section, CIAG, Vienna.

CONTENTS

	<u>Page</u>
1. <u>Introduction</u>	1
2. <u>External negative effects on the state-owned industrial sector</u>	3
2.1. Industrial overcapacity facing a stagnant or recessionary market	3
2.2. Technological changes	4
2.3. Consequences of the altered industrial situation	5
2.4. Structural changes	
3. <u>Internal structural problems</u>	7
3.1. Interrelationship between state-owned companies and state authorities	8
3.2. Management performance	8
3.3. Control systems	9
3.4. Financial insufficiency	10
3.5. The position of the state-owned companies in regard to the private sector	12
4. <u>Engagement of state-owned companies for national economic     and social tasks</u>	14
5. <u>Future development policy of the state-owned companies</u>	16

I. Introduction

In industrialized countries the industrial sector came under state ownership mostly after the second world war; in developing countries mainly after 1960. This signifies that the experience in matters of investment, organization and operation in the public industrial field has still to be gathered and analysed. At the beginning, only the main reasons and scope of this very important action were obvious: to ensure the national control of key industries, to preserve the autonomy of decision and independence of basic and strategic resources and to supply services considered of national interest. The Austrian nationalization programme was more extensive as it comprised beyond the iron and coal mining, steel and oil sectors, important enterprises in the machine building, electrical equipment and chemical industry.

The role of the state as regards function and organization of state-owned companies varies considerably from one country to another. Austria has adopted a medium way between a real entrepreneurial position with full and rigid state engagement and systems where state intervention is limited to a catalyst function for industrial activities or by simply bringing their influence to bear on private companies.

In Austria state-owned companies are covered by a genuine holding company named OIAG (Österreichische Industrieverwaltungs Aktiengesellschaft), constituted as joint stock company,

the total shares of which are owned by the state. By law this holding company has been given essentially a controlling and financial function.

The holding's subsidiaries that are also organized as joint stock companies have a rather autonomous and free operative status and the role of the ÖIAG is limited to the analysis and approval of annual reports and accounts, to the approval of the appointment of members for the Board of Directors, to investment decisions, to the approval of acquisition and establishment of new companies and by supervising and cooperating in a Five Year Plan which has to cover marketing, investment, finance and production projections. This status of the subsidiaries, permitting them to develop their entrepreneurial and managerial skill, is certainly one of the main reasons for their successful operation and their important contribution to the economic reconstruction process in Austria after the second world war. Construction materials, consumer and capital goods expanded with high growth rates and today the export share of the industrial public sector exceeds largely the share of total industrial work force in Austria. Research and development expenses of this sector in 1980 corresponded with about 120 million \$ /year to 2,0 percent of the turnover; if this rate is lower than in some other industrialised countries the reason is due to the predominant share of non-research-intensive industries within the Austrian public sector. In France, for example, 45,6 percent of the total research expenses are spent by the car-, electronic- and aeronautic sectors. Changes of organizational nature in the Austrian state-owned industrial sector concerned namely the concentration and merging process in the steel and special steel sectors in order to obtain a strengthening of their productive and administrative capacities.

In the seventies, whilst Austrian industries were still recording one of the highest growth rates of the OECD countries, shadows appeared on the long-lasting favourable economic situation and the emerging crises affected particularly strongly,



basic industries in developed countries, the underlying causes being:

- the continuously increasing production capacity did not correspond anymore to the stagnant market situation,
- new competitors emerged, who were in a position to produce at lower costs,
- the insufficient capability of a traditionally orientated and high capital-intensive industry to introduce new product-lines.

To these factors on international level others were relevant for the performance of the public industrial sector, namely the

- interrelationship between state-owned companies and state authorities,
- management performance
- quality of control systems
- funding
- cooperation with private firms.

Thirdly, state-owned companies are supposed to support macro-economic objectives as regards employment security, employment creation or regional development politics. All these influencing factors that bear on the results of the public industrial companies, will be treated below.

## 2. External negative effects on the state-owned industrial sector

### 2.1. Industrial overcapacity facing a stagnant or recessionary market

Iron, steel and aluminium industries form an important share in the public industrial sector in developed countries as for instance in Austria, where these branches count for 41,6 percent of the total turnover of the public industrial sector

The extension of iron and steel capacities in industrialized countries meets a market situation characterized by

- the end of the domestic reconstruction period in industrialized countries, linked with a market saturation with steel-intensive consumer goods as for the car production, construction equipment and ship building industry, that followed the two decades lasting situation of steadily growing demand. Consumer goods production as a whole was declining after the first oil shock in 1973;
- the rapidly increasing steel production in Japan and in some developing countries like Brazil, Mexico, South Korea, and Argentina; favoured by the existence of better and more economic mining, processing conditions and lower wages.

This situation has consequently modified trade conditions. West European steel producers had to cut their production capacities, to sell at huge losses, to reduce labour and to request subsidies for survival.

Other basic industries have been stricken too as the aluminium production suffers from rising energy costs and some branches of the chemical industry suffer from high raw-material, energy and transport costs and severe overcapacity problems in the fibre-industry. In the engineering sector the ship-building companies' capacity utilisation decreased below 50 percent so that alone in Sweden the state-owned ship building company during the seventies had to receive subsidies corresponding to 136.000 \$ for each employee.

#### 4.2. Technological changes

Electronic, gene, robot, informatics, laser and other high technological technics are revolutionizing the conventional industrial operations and are generating severe problems

that exceed the potential of single enterprises.

Traditional work proceeding, material use, labour and even living conditions are touched and at the same time product - cycles are shortened rapidly.

The negative effects of the neglect or even the belated awareness of these new technologies, can be shown by the example of a private swiss watch-producing group which had to reduce its personnel from about 75.000 to 40.000 in a few years.

### 2.3. Consequences of the altered industrial situation

The state-owned industrial sector has been mostly affected by this situation because in the major part, basic industries belong to the most vulnerable industrial branches.

It has to be specified that private steel companies in the USA, Belgium and France have been stricken in the same manner and had to proceed to important manpower reductions and recorded enormous operative losses. Only huge state subsidies could prevent companies from partial or total economic collapse; the firms were given support by direct payments or by transforming former loans into equity or by receiving financial guarantees.

Between 1975 and 1980 the breathtaking sum of 18 bn \$ was raised for funding the steel industries in Great Britain, France, Italy and Sweden. This amounts to an average subsidy of 36 \$ per ton for the total quantity of crude-steel-production in this period.

State-aids to the public British Steel Corporation came to a bill of about 6 bn \$, whereas the loss of the business-year 1980/81 again was about 1,7 bn \$.

About 100.000 jobs have been lost at BSC since 1974/75, which is approximately fifty percent of the active workforce of 1974.

Steel production at BSC fell from 20,8 million tons in 1974/75 to 11,9 million tons in 1980/81.

In France the state had to spend 3 billion \$ for the salvage of its private steel companies USINOR and SACILOR.

Problems are worsened by the fact that the European steel industry is located at specific regions so that the difficulties of the steel enterprises have a negative multiplying effect on other industrial branches, on supply industries, on commerce and service industries. As a result of this, some regions are stricken by an extremely high rate of unemployment. For some British towns the respective figures show an unemployment rate of 50 percent. Of the Spanish province of Alovera, a 40 percent unemployment rate is recorded.

Austria has been subject to similar problems. Though the overall employment situation has been satisfying compared to the average European country - unemployment during the first half of 1981 came up to 2,4 percent in Austria - there are some regions, which are severely affected by the steel crisis. Namely in Styria, the Austrian province with a traditionally strong steel and special steel industry, at some locations 50 percent of the working population of the area are engaged in the steel industry. Though unemployment in Styria has not dramatically increased, the respective figure for the first half of 1981 being 3 percent, the transformation process that is under way in the nationalized steel industry has to be carried out with regard to this specific employment structure.

Due to the intensified diversification actions, the Austrian nationalized steel industry faced the crisis under less unfavourable conditions. Within the last years VOEST-ALPINE succeeded in improving its product range to the effect that 1980 47 percent of its turnover were made up by finished

products and engineering and contracting. In spite of this, due to insufficient steel-prices and the collapse of the steel market that again took place in 1980, total operational losses of the Austrian steel and special steel companies accumulated to a total of 538 million \$ during the past six years. Till the end of 1980 labour reduction has reached 4 percent of the total labour force in 1974, a rather modest figure if compared to the European average that amounted to 24 percent between 1974 and 1980.

#### 2.4. Structural changes

The surplus capacities of steel products linked with increasing export difficulties - whilst some European steel companies have export rates up to 80 percent of total production - compelled these industries to reconsider and adapt their production programme in view of processing higher value added products and also by integrating single products into a larger system accompanied by complementary consulting, operational, managerial, marketing and after sales services. This development requires a thorough transformation of the companies' organisations, the creation of new divisions with a sufficient staff of experts in the technical and other fields, training of labour to new tasks, emphasis on research and development activities.

Needless to say that this evolution meets initial difficulties in the technic, economic, financial and managerial field but also by the fact that the major part of the employees do not want to abandon their traditional mode of work.

#### 3. Internal structural problems

Whilst problems treated above concern particularly state-owned companies in industrialized countries, the considerations enumerated in the following chapters are valuable for state-owned companies in general.

3.1. Interrelationship between state-owned companies and state authorities-----

The tight link of state-owned companies to the government, that is exerted directly or through holding companies, let them open to more or less administrative and political influences; this might have negative effects if - as in Great Britain - even their status is questioned in case of a change of the political system.

Amongst the different organization patterns regarding the relationship between the government and state-owned companies, the Austrian solution seems favourable because:

- the political stability assures an undisturbed work of the top management of the holding company whilst political interference is rather small due to juridical and financial autonomy of the subsidiaries. This solution has proved successful during the last 15 years. Before the establishment of the holding company in 1966, the nationalized industries had been subject to ministry administration, and competences varied according to the outcome of elections to the National Assembly. In these times - between 1946 and 1966 - day-to-day political interference with the companies, was a much deplored fact in the Austrian political and economic scene;
- ÖIAG functions as a genuine finance holding, by providing new equity capital for her subsidiaries and supporting their external financing activities with guarantees for loans and credits. The funds necessary for these activities are raised by the groups' dividend income and by bond-issuance and other long term borrowings, on the part of ÖIAG, herself.

3.2. Management performance

Management performance in the public industrial sector is more exposed to the public by the mass-media and laid more open to criticism than private industries. It can, however, not be denied that in some countries the selection of managers for state-owned companies has to be considered as arbitrary and not based on objective and professional criteria.

Besides such contestable decisions for the appointment of managers, the opinion prevails that a position in state-owned companies assures a quiet life and security. Fortunately this situation is now under change and the importance of high qualified managers is generally agreed.

There exists however the difficulty how to evaluate managers' performance in public enterprises. Because of the dependence on external factors, of non quantitative elements and above all on the difficult economic situation prevailing in some branches, which makes it easier in the oil industry than in the steel industry to work profitably, a judgement according to financial results alone would be most erroneous.

Theoretical formulas for performance evaluation have been elaborated and suggested, but they do not seem applicable in practice. According to the author's opinion the only way would be to estimate how managers have accomplished their medium or long time projections. The danger that in this case, plans would be purposely elaborated in a too pessimistic way, is not valid for the OIAG-group where 5 years' plans of the subsidiaries have to be accorded with the holding company.

This solution of evaluation would permit a judgement regarding the management's ability to foresee the production and marketing situation of the company, the quality of diversification actions and the results of new investments in regard to sales projections or market shares.

Contrary to the general opinion that "state-owned" executives are anonymous civil servants, personalities like Mattei or Dreyfuss will also enter into the history of economics as Ford, Krupp or famous managers of private firms.

### 3.3. Control systems

Legislation regarding control institutions varies from country to country. In Austria the control of state-owned companies is exercised as in private joint stock companies by a

supervisory board and on national level by the court of accounts (Rechnungshof).

At ÖIAG's general meeting the Federal Chancellor represents the state as the owner of the holding company's share capital. The ÖIG- (ÖIAG-) -act (1966, amendment:1969) also provides for an annual report by the Federal Chancellor at Parliament. Though this annual report can not be graded as a means of direct control, it has an important function as regards information and critics on all questions linked to the state industries, on a parliamentary level.

The presence of top managers of the holding company at the supervisory board of subsidiaries and the permanent contacts between executives on different levels between the holding company and its subsidiaries assure that control will not be restricted to backward account checkings.

The new export orientation in Austrian companies towards the implementation of important industrial projects in far-distant countries brings about additional control problems, because the construction of such plants extends over several years and the final financial results can only be obtained after total completion of work.

For this reason a new control system should be introduced comprising a permanent checking of the planning and construction progress, of the situation of equipment supply and of punctual cost estimation.

#### 3.4. Financial insufficiency

The need for funding state-owned companies creates big problems. The reasons for this increasing capital demand can be summarized as follows:



- basic industries count as the most capital-intensive ones and new investments necessary for rationalization and competitive reasons require considerable financial resources;
- on the other hand state-owned companies received only insufficient capital contributions;
- during the reconstruction period 1946 to 1955 and some years after the nationalized industries were used as an instrument of government policy "as a direct gear into the economic motor for influencing its development". The nationalized steel-, coal- and fertilizer enterprises had to follow a special price policy which kept the domestic price levels much below the European export prices, but had detrimental effects on the companies' own funding power;
- increasing balance losses, notably in the steel industry have to be compensated;
- the under-capitalization of state-owned companies at rates down to 5 percent instead of an equity capital of at least 30 percent ordinarily required presses hard on the profit and loss account. This difficult situation has been aggravated by the increasing interest rates in 1980 and 1981.

Up to the end of 1980 financing from federal budget funds amounted to 64 million \$. They were attributed for structural investments to the special steel company, Vereinigte Edelstahlwerke.

In 1980 total investments of the CIAG-group could only be covered by 65 percent by the cash flow, compared to a 80 percent-ratio in the seventies.

Evidently public financing of state-owned companies is not applauded by the public and in this sense the recent decision of the Italian socialist party has to be understood: to sell some companies participations of non-strategical value, like CEMENTIR and to allow NIPPON STEEL to participate in ITALSIDER. In France a private participation up to 25 percent has been allowed since 1980 in state-owned companies. In this manner new capital will flow into these companies thus diminishing the need for public funds.

It has to be annotated that in some cases the need for financial contribution has led to an enlargement of the nationalized industrial sector. In Belgium the state became a shareholder of 4 major steel companies in 1979 and in 1981 aquired additional shares of the newly formed COCKERILL-SAMBRE corporation. In France too, state authorities have obtained more direct or indirect influence on the steel corporations, after massive subsidizing actions in 1978.

If these examples and the reasons for these operations can be considered as single cases, they coincide - unvoluntarily - with the tendency to associate state-owned companies more tightly into the national economy, thus closing the gap between the two economic systems.

### 3.5. The position of the state-owned companies in regard to the private sector-----

The opening process of state controlled companies towards the private sector in Austria follows the lines of a cooperation and participation policy with private firms.

A denationalization of the existing 100-percent-state-owned enterprises needed the consent of

the National assembly's main executive committee and besides, is not to be envisaged for political reasons, as most of the Austrian employees and the members of the Socialist Party view the state industries as an important achievement in the history of the 2nd Republic.

The cooperation with private firms is exercised as follows:

- The holding company of the state-owned firms or its subsidiaries might be interested to make minority or majority participations in private firms under the conditions that these private firms have strategical character, are in a position to open new markets, possess the know how for special products or - in rare cases, if the closure of a firm would upset the regional economy, and a future return to profitability can be foreseen.

This is a marked difference to the Italian solution where the state-owned company GEPI rescues and revitalizes ailing enterprises mostly without distinction.

- In order to complete their own production programme or to obtain new technologies, Austrian companies enter into cooperation with private Austrian or foreign firms.

VOEST-ALPINE has taken some steps in that direction with a cooperation programme with the computer specialist IBM, for the production of electronic components. Another recently negotiated venture in the field of electronics is a joint venture with the US electronics company AMI.

Several participations in mining companies have been acquired during the last 5 years to strengthen the raw material supply of VOEST-ALPINE, the mining areas lying in Austria (wolfram), on the Philippines (chrome) and USA (coal).

4. Engagement of state-owned companies  
for national economic and social tasks

In free market economic systems state-owned companies can be employed as active instrument for the government to support economic structural improvements. This concerns particularly small and neutral countries like Austria, where the development of new technologies is not pushed by governmental assignments - as in the USA where government decided in May 1981 to spend 100 million \$ for one single electronic development project for military application. Financial and other incentives have to be offered to favour investments in future oriented industrial branches when private firms by reasons of too great commercial risks do not tend to be engaged.

State-owned companies have contributed greatly to the development of parts of the biotechnicals and electronics industry in Austria. ÖIAG took an active part in the setting up and financing of a micro-electronic development centre at Villach, Carinthia.

In this project ÖIAG took the opportunity to cooperate with SIEMENS AUSTRIA, which itself is a 43 percent state-owned company. In the field of biotechnics, the special steel company VEW has been operating successfully by constructing power-alcohol and food processing plants on the basis of the Vogelbusch-technology. Many of these plants have been exported to overseas and African countries like Kenya, Madagascar, Brazil and USA.

However, the most important problem which governments at present have to face is that of unemployment. There is no place here to discuss the reasons but the effects constitute real economic and social dangers whilst solutions are difficult to find. How should one stimulate production, discover new products in stagnant or recessing markets and cope with rising energy bills? The introduction of import-substituting products often clashes with buyers' preferences or is only profitable at large scale

production, which might create sales problems in a small country. On the other hand export expansion requires market experience, export agencies and a specially trained sales force. This search for new employment possibilities is difficult and dependant on the ability to judge numerous structural and operative factors relevant for new investment.

If thus government does not want to have a region with a high disoccupation rate or to subsidize permanently non-profitable industries, it has to proceed to structural change by creation of higher technological and future-orientated industries in industrial areas where infrastructure, telecommunication and transports offer the best investment conditions. For this policy governments are using special governmental institutions but above all state-owned companies.

In Austria ÖIAG and her subsidiaries endeavour to substitute lost employment by making provision for new lines of production within the state-owned companies, but also by a project for attracting inward investment. The companies that decide for investment may count on support through federal or regional investment aid, or on direct-participation of one of the nationalized companies, if this should prove useful and suitable in regard to production.

As a rule, matters of employment policy are dealt with in close cooperation with the trade unions, whose members have a strong position in the nationalized industry. The companies' shop stewards who are organized members of the Austrian trade union, the ÖGB, are by law members of the companies' supervisory boards and thus are able to partake in the decision making process of this body. Besides, there are regular contacts between the companies' top managers and the shop stewards concerning all social and other questions, so that upcoming problems between management and employees may be negotiated in time. This high degree of employees' participation rights attributes positively to the good social climate in Austria.

5. Future development policy  
of the state-owned companies

With the present industrial revolution, the role and function of state-owned companies are subject to changes. These changes met more difficulties than in private industries because of their high rate of capital intensity, the requirement of large funds for the investment in rationalization and modernization activities and also due to a certain lack of flexibility and adaptability.

In the midst of these changes a tendency for closer cooperation between public enterprises and private companies can be discerned, which is profitable for both sides and helps to bring about a deeper understanding of the specific problems related to each sector.

It can be foreseen that in Austria the reforming process under way will move into three directions:

- Development of new activities

Without losing their position as national key-industries<sup>†</sup>, state-owned companies are - for economic reasons - obliged to continue their diversification and rationalization actions. In search of higher value-added and higher technological products, research and product development will be intensified and export activities enlarged. Beyond forward integration of basic products new future orientated technologies will be introduced, an operation which will be mostly carried out in cooperation with foreign private companies.

- Organizational Change

The altered production process requires also a change in the internal structure of the companies and henceforth more emphasis has to be given to marketing, research and development, accompanied by a large range of services delivered with the proper products like customer training courses for industrial projects. Consequently multidisciplinary activities will be joined with mostly technical ones.

The selection of managers will be handled according to objective and professional criteria but on the other hand enlarged responsibility and freedom of action will be given to them. The responsibility which managers have to assume will be clearly defined and their performance will be subject to an elaborate and efficient control system.

- Assistance to strategical national actions

If there are no other specialized governmental institutions, the state-owned companies might be engaged in industrial restructuring plans and in search to resolve unemployment problems. They might also serve as catalyst for the promotion of new industrial centers in distressed or not yet developed areas.



