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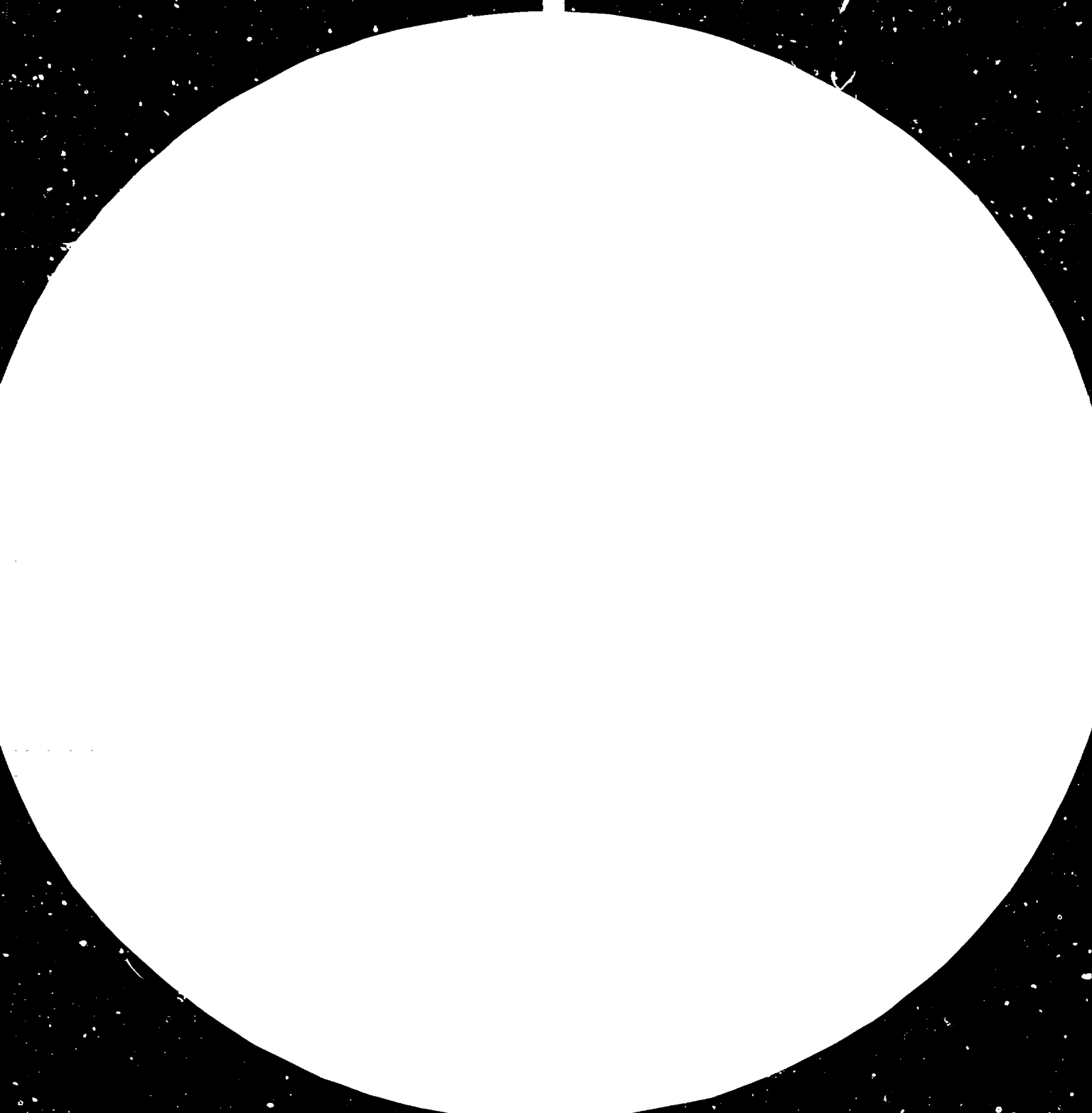
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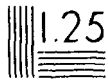
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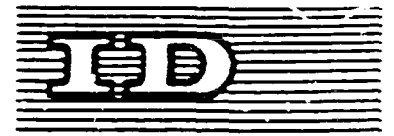


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ORGANIZATIONAL FRAMEWORK, INSTITUTIONAL RELATIONSHIPS
AND MANAGEMENT OF PUBLIC INDUSTRIAL ENTERPRISES*

by

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Public sector industrial enterprises (PSIE) are numerous today and their numbers are growing particularly in the developing countries, despite preaching to the contrary by the proponents of market economy. PSIE shows a variety of forms of organization. The purpose of this paper is to look into the organizational framework of PSIE. In doing this we shall begin with the concept of organization itself.

I. CONCEPT OF ORGANIZATION

The reality of an enterprise, be it public or private is a set of complex relationships within and outside the unit. The relationships are of functional as well as personal nature. These interrelationships have a purpose of accomplishing goals and objectives institutionally as well as individually. A polity, society, community or a group of individuals sets up an organization because in their judgement certain collective goals, given the prevalent legal and institutional alternatives, are better attained through the collaborative unit called organization.^{1/} But for the group to remain together or to sustain the organization and for individuals to work and perform in the organization it is necessary to ensure continued satisfaction at a reasonable/acceptable level (better than the alternative available) of individuals goals/needs.^{2/} The PSIE (a subset of Public Enterprise) are set up on the basis of the decision by a polity and implemented by a group known as bureaucracy primarily because the polity believed that what PSIE could be expected to do, it could not be done by other organizational alternative. In order to achieve those institutional goals visualized by the polity, it is necessary to ensure satisfaction of goals of the operatives (those who work in and/or PSIE) and the members of bureaucracy (who are instrumental in its setting up) and the polity, besides the members of society in whose name they are set up. Thus PSIE has to satisfy not only possible

1/ M. Weber, Theory of Social and Economic Organization, Free Press, New York 1947.

2/ C.I. Barnard, Organization and Management, Harvard University Press Cambridge 1948

multiple institutional goals, defined or undefined as well as individual objectives aspirations of at least three sets of persons. These goals may indeed be contradictory as well as interdependent i.e. jointly they play at least partly a zero-sum game. In other words, the function and management even of a simple PSIE is more complicated than is usually thought of.

As there may be organizations set up with different intents - social, political, economic—the study of organization has been approached from different stems of disciplines. It is indeed difficult to put together all the diverse views on organization, we shall briefly deal with three distinct schools - structural, behavioural, and systemic—and attempt a synthesis of these three views.

Structural view of organization

Structuralist view an organization as an organic amalgam defined by the necessity of functional process for achievement of a goal/performing a task. The main focus of this view is the authority - responsibility for doing the job. In doing the job, the work is broken into components and sub-components and they are arranged in logical order to define the line of authority, flow of information and (counter) flow of decision in a manner so as to maintain unity of command, appropriate super and subordination and discipline and all these together provide the organizational efficiency which is sustained through equity, incentive and reward and these help create the esprit de corps.^{3/}

Structuralist view of an organization is neatly presented in an organogram which presents the hierarchy of authority, functional departmentation, span of control, staff and line demarcation, horizontal and vertical communication and coordination process. Behind all these the basic assumptions of division of labour, proper selection and development of personnel, adoption of least cost effective procedure for work and, efficient management system are omnipresent as preconditions of good organization.^{4/} Structural approach to organization gives the impression

3/ A. Flyol: General and Industrial Management, Pitman, London, 1967

4/ F.H. Tylor: Scientific Management, Harper 2 Row, New York, 1947

of an inanimate non-sensitive, mechanistic character, particularly because in the writings of the proponents of this school organization took precedence over individuals. They seem to imply that if the system of authority and pattern of functional relationships within the organization are appropriate then the inter-play of individual relations and their consequences would be taken care of institutionally. In this sense the structuralists are interested in the physiology of an organization almost to the neglect of the psychology of the individuals who make up the organization.

It may be noted that the structural concept of organization has a distinct familiarity with bureaucracy. It may be recalled that modern bureaucracy has been said to have the following characteristics:^{5/}

- I. An official jurisdictional area fixed by rules, laws or regulations which implies: (a) bureaucracy distributes activities in a fixed way; (b) authority to discharge these activities is ensured through employment of qualified persons as per predetermined criteria.
- II. An office hierarchy and graded authority, which implies: (a) firmly ordered system of super and sub-ordination, (b) defined location of supervision and span-of-control, and (c) possible appeal against certain decision of a lower authority to the higher authority in a defined manner.
- III. A set of general rules which are stable, exhaustive and need be learnt, which implies: (a) need for training, (b) adherence to appropriate (written) communication for decision, and (c) consideration of the job as a vocation.

The structuralist view of an organization is indeed popular with PSIE which are outcome of the decision of a polity but ultimately set up by the bureaucracy of the concerned ministry often with the complement of the

^{5/} M. Weber: Essays in Sociology, Oxford University Press, 1946

secondment of bureaucratic official.^{5/} This is more so because of the three types of legitimate authority - charismatic, traditional and rational - both public bureaucracy and PSIE tends to conform to the last as they rest" on a belief in the legality of patterns of normative rules and authority" of people in command. This legal authority is effective only because the following are accepted valid by both public bureaucracy and PSIE:

- (a) legal norms are agreed to or imposed upon the members of an organization with a claim to general adherence;
- (b) laws/rules are consistent set of decision norms, applicable to particular cases in the general pursuit of interests of the group united in the organization or affected by them;
- (c) authority, typified in an office with attendant status, is subject to an impersonal order, which alone individuals in the organization confer obedience.^{7/}

Thus in the structural view of an organization, the focus is on office/position which is basically a synonym for role prescription. There is indeed an established expectation about a job to be performed by a position/an office. The organization, through a process of authority delineation, allocates functional activities to a particular office/position and only in that sense to the individual in that office/position. These functional activities and roles prescriptions are devised for attainment of organizational goals which calls for a stable system of coordinative relationships amongst the offices and thus the officers of the organization.^{8/}

^{6/} Muzaffer Ahmad: Public Enterprise in South Asia - A study in comparison (mimeo). Discussion paper no. 12, Center for Asian Development Studies, Boston University, USA

^{7/} M. Weber: The Theory of Social and Economic Organization, Free Press 1947

^{8/} Robert S. Weiss: A Structure-Function Approach to Organization, Journal of Social Issues 12(2),

Behavioural view of organization

The behavioural approach seeks to amend the structural approach primarily through placing emphasis on individuals who make up the organization and thus taking a psycho-social view of management in place of mechanistic standardized view of the same. The basic point that such an approach emphasizes is that an individual in an organization is not an inert instrument performing an assigned task and that individuals are variable in an organizational system and should not be viewed as given.²

The structural approach concerned itself with office position that helps task performance, i.e. to produce a product or provide a service. It proclaimed that such an approach would provide the organization with an external balance ensuring survival in a competitive world, adjustment to meet challenges external to it and appropriate internalization of technical system for performance. The behavioural approach, being concerned with the human aspect of organization, concerns itself with the internal balance within the organization which is a confluence of a variety of personal and social experiences as well as individual needs and objectives brought together by the push and pull (opportunity) to work for the common objective embodied in the external balance function of the unit.¹⁰

The plurality of individuals interacting within and without the formalistic work-group defined by the functional structure of the work place leads to the formation of informal association/group. The patterns of interaction that arise between groups or between individuals can indeed be graded as strong or weak relationship and can be measured in terms of "social distance" alongside the ranks in terms of prestige of a position/work that is perceived by the individuals and the groups. Anything that increases social distance of an individual/group from a desirable person/position is likely to affect adversely his rank in prestige, and he would view them as unjust. In this environment almost all events become carriers of social values and creators of sentiments which is the product of his interaction. The structure of a formal organization cannot explicitly recognize distinction of social distance, hierarchy of prestige or primary level of the groups.

2/ J.G. March and H.A.Simon, Organizations, Wiley New York, 1958

10/ F.J. Roethlisberger and W.J. Dickson: Management and the worker, Harvard University Press, Cambridge, Mass 1939

The staff and line relation as well as horizontal and vertical relation shown in a structural view of organization cannot take into account the actually working informal patterns of interaction between individuals and groups in the formal organization, while the informal groups not only exist in every organization but they are also found to have effective or ineffective collaboration. These informal groups may hinder or facilitate work of the formal organization; it is also possible that such groups may indeed develop in opposition to formal organizational structure or persons incumbent therein. But that is the reality of organization and not that shown in the neatly drawn organogram.

The behavioural view does not assume harmony as is inherent in the structural view; on the other hand such an approach generally presumes an interpersonal or intergroup conflict to be a reality and it is considered a function of basic management to convert such conflicts into workable harmony. An organization in its normal dimension represents at least a potential control over resource. This control over resource is shared in proportion to the authority that a group through its member - individual shares; and this is determined by the interaction of the informal groups in an organization. Thus even though a job may be broken into components and arranged in logical order but the line of authority flow of information and counterflow of decision may indeed jump those order and create an effective command, working super and sub-ordination and produce the job instead of waiting for the logical unity and chain of command to emerge. The behaviourist thus replaces the concept of ultimate authority by functional pluralistic authority and joint power in places of dominant power.^{11/}

Unlike the structuralists the behaviourists negate the idea of distributing activities in a fixed static manner and that of defining authority to discharge these activities strictly as continuous employment of individuals with predetermined technical quality as the same personal and social experience is impossible to ensure under any known forms of relatively free society. Thus human behaviour tends to disrupt the organizational hierarchy and neat logical relationship of an abstract structure. The behaviourists negate structuralists view of firmly ordered system of super and sub-ordination backed by defined location of supervision and span of control. They believe that

^{11/} Dynamic Administration, collected papers by Harry P. Follett, New York, 1942.

the span of control is a function of human determinants (like managerial ability, communication effectiveness, type of people and function supervised). As for the work division and specialization which is the cornerstone of structuralist approach, behaviourist view is that this is as much a function of motivation and co-ordination as it is of the logic of the functional process.^{12/}

It may be recalled that structural view emphasized the role of the offices and interrelationships of these offices and assumed that individuals can be selected and trained to adapt to the roles without problems. This facilitated top-down structure of an organization. The behavioural view emphasizes the individual and his role perception and clustering of individual in informal groups and interrelation of these groups for acquiring or negating authority and shaping the fulfilment of the organizational goal through accommodation of individual and group needs. This view is strongly suggestive of a bottom up organization structure where the persons involved would help create primary work-units as per their perception of purpose, location, and activity. The need for organizational survival would also devise processes to work out "inter-group rivalry" through "integrative devices" like "linking pin function" of "locking groups" which consist of leaders of sub-groups in ascending hierarchy.^{13/} Furthermore, the structural approach not only advocates hierarchic system of organization, they also suggest co-ordination by command. The behavioural school do not deny the need for a workable hierarchy but advocate a participative kind of management and co-ordination through consultations and creative delegation.^{14/}

PSIE in general has not had the scope of accepting the behavioural approach to organization as they have been born with the inherent acceptance of structured organization. This does not mean that there has not been acceptance of certain ideas of better human relations concepts advocated by the behavioural school in the management process of PSIE. The social enterprises of Yugoslavia is possibly the best known examples of participation in management and even though these have institutionalized co-ordination by consultation, it is difficult to say whether such an approach has in effect created a bottom-up organization in these units.^{15/}

^{12/} W.G. Scott: Organization Theory: An Overview and an Appraisal, Academy of Management Journal, April 1961.

^{13/} Rensis Likert: New Patterns of Management, McGraw-Hill 1961.
Rensis Likert: The Human Organization: Its Management and Value, McGraw-Hill 1967.
Papers on Science of Administration, New York Institute of Public Administration, Columbia University, 1937.

^{14/} E.P. Learned, D.N. Ulrich and D.R. Booz: Executive Action, Boston 1951.

^{15/} M.B. Gudić and M.R. Todorović: Study on the Role of Public Sector in the Industrialization of Yugoslavia, (memo), Institute of Industrial Economics, Beograd, 1980.

Systemic view of organization

The structural view of organization placed primary emphasis on the 'office' while the behavioural view claimed it for the individual. The systemic view of organization concerns itself with the job.

System as organisational process

The adherents of this view asserts that the only meaningful way to analyse an organization is to examine it as a system and they further assert an organizational system is an amalgum of independent but interrelated sub-systems of mutually dependent variables. They focus their attention on:

- (a) Goals sought by the system as a whole, and sub-systems as making contributions to those goals,
- (b) Strategic value of parts of the system or sub-systems,
- (c) Nature of mutual dependence of the sub-systems, and
- (d) Process in the system which facilitate result-producing activities by the sub-systems.^{16/}

It is well recognized that an organization as an overall system has certain goals to pursue. But the organization has components which have their goals too and that goals of components may indeed lead to conflicts if those are pursued in isolation. The same is true of the individuals who activate the sub-systems and through that the system as a whole. Thus in order to maximize the achievement of the organizational goal, it becomes necessary to effectuate appropriate trade-offs between goal achievement of individuals and of sub-systems that make up the organization. This calls for a goal congruence system which through control, incentive and availability of resources helps to prioritize the goals, harmonize them and induces individuals to trade off divergent goals for conformity leading to optimal identification of individual and organizational goals.^{17/}

Underlying the system of goal congruence is the system of actual work flow within a technologic and procedural framework. In this system functional differentiation becomes the basic structural principle^{18/}; even though process ~~is~~ purpose differentiation may lead to differing structures in similar organizations. There seem to be multiple levels of this structure.

^{16/} L.J. Handerson: Pareto's General Sociology, Cambridge: Harvard University

^{17/} J.S. March and H.A. Simon, Organization, Wiley 1958

^{18/} E.O. Chapple and L.P. Sayles: The Measure of Management, McMillan, 1961

At the primary level where individuals directly interact it is the technique of production that seem to determine the task. At the secondary level, the management regulates the process of interaction within the primary sub-system and between primary sub-systems. At the tertiary level, the policy makers of an organization act to coordinate the tasks of sub-systems through decisions to that intent. These together defines the hierarchical form of organization.

The task of regulation and coordination is facilitated by a system of communication, a motivation system and a system of decision - making process. The task of coordination and regulation aims at connecting an individual or a part of the system with another in more significant way than would be possible by the individuals or parts themselves.^{19/} This is made feasible through motivation which works to tip the balance between individuals contribution to organizational effort and his total material and otherwise satisfaction derived from it in favour of the later.^{20/} However this can not be done at the expense of total efficiency of the organization to attain its goals

That task is facilitated by a system of communication which interprets the organizational goal, value of its achievement, tasks of the sub-systems in this respect as well as dysfunction of noncongruence to the parts/ individuals concerned. The communication system guides the flow of information and helps establish the line of command. Only through proper functioning of such a system any organization protects the integrity of its goal and its achievement as it ensures ability of the individuals and the sub-systems to maintain meaningful interaction.^{21/}

Finally, decision making in an organization is a continuous process. Every separate decision at various levels is only an element in the long chain of decisions.^{22/} In this sense, organizations are systems in which individual can be viewed as decision-making mechanisms.^{23/} These

^{19/} C.I. Barnard, Organization and Management, Cambridge: Harvard University Press, 1948

^{20/} Barnard: (19)

^{21/} Barnard:(19)

^{22/} Barnard:(19)

^{23/} H.A. Simon: Administrative Behaviour, Mc Millan 1960 and H.A. Simon: The New Science of Management Decision, Harper and Row 1960

disparate individuals produce congruent decisions only if the organization system help create value premises or unity of objectives which guide decisions of the individuals in the organization and this is protected by identification of the individuals with the organization through the contribution satisfaction balance.^{24/} This decision making process lends itself to create centres of authority which is the power to make decision affecting actions of others. These centres are effective only if there exists acceptance of such decision by individuals/subsystems for which it is meant.²⁵

Thus, from a systemic view of organization, an organization shows the following sub-systems:

- (a) the goals congruence sub-system;
- (b) the technical sub-system for functional differentiation
- (c) the motivation incentive sub-system;
- (d) the communication - information - sub-system;
- (e) the decision making sub-system and
- (f) the coordination regulation com control - authority - sub-system.

It may, however, be noted that these sub-systems may not be all mutually exclusive or one sub-system may indeed cut across the territory of the other, but that is what makes them inter-relate each other. The systematic approach has indeed been helped by much of the empirical work that has helped to understand how the job get done in an organization.

System as operation

However, in a more limited sense, systems approach is an outcome of the work of specialists in the field of operations research. This approach contends that any organisation is a system wherein every element has to have defined goals and the management merely integrates properly the elements in the organization system. Only the proper achievement of goals by the elements would ensure optimal efficiency on the part of the organization. The essence of such an approach requires the following:

- (a) goal-formulation and fixation of their hierarchy in the light of the overall goals of organization as perceived by the management and accepted through the decision-making process;

^{24/} Simon: (23)

^{25/} Simon: (23)

- (b) quantification of goals, methods and means of their achievement
and (c) efficiency in attaining pre-set goals in terms of input-output
(effort - results) analysis of alternative strategies.^{26/}

This is merely a restatement of what has been said earlier with the difference that the earlier statement has subsumed much of the behavioural contribution while the syntopic operations research statement is a mechanistic restatement of the same with much of the dynamics assumed away.

Synthesis

We have attempted to pull together and neatly classify many contributions that have been made in the field of organization and management. In doing so, we have tried to locate the point of emphasis - the locus of authority structure (i.e. office), the individuals who actually work and system of getting the job done. It would be immediately recognized that they are merely three facets of the same thing and they need to be brought together. A close reading would also suggest that these different views do not actually exclude other factors. They merely underplay them. And it would also be recognized that the emphasis on any of the facets would depend on the type of job, type of society, level of the economic development, political climate, etc. Hence, a synthesis of these three views, pulling together the essential, is indeed possible. For example, the structural approach finds the authority - responsibility as a critical element in performing a job, while the behavioural school suggests that the formal structure arrived through functional analysis may indeed require to be amended by human determinants and in place of coordination by command it may indeed be better to work through consultation which in effect changes the organization structure. These have indeed been highlighted by the concepts of sub-system for goal congruence and goal-attainment. The systemic view would put them into predetermined inter-related boxes. Casual empiricism tells us public enterprises are closely associated with the structural view of organization, with certain recent moderation adapted from the organizational process mechanisms. The exceptions are exceptions!

^{26/} J.W. Forrester: Industrial Dynamics, Cambridge: Harvard University Press, 1961, Stafford Beer: Cybernetics and Management, MacMillan, 1969 and E.B. Roberts: The Dynamics of Research and Development, 1964.

II.

LAW AND ORGANIZATIONAL STRUCTURE

Types of Public Sector Industrial Enterprises

Public sector undertakings seem to be present a variety of forms ²⁵ but for PSIE the following seem to be the relevant ones:

- (a) Departmental undertakings
- (b) Statutory corporation
- and (c) Limited companies ^{26/}

(i) A departmental undertaking ^{27/} is not a legal entity; it is not established by or with the consent of the legislative authority in the country. It is set up by an executive action of a government body without any capital structure. A departmental undertaking is charged with the duty of carrying out restricted specified function, generally precisely defined, falling within the purview of the governmental body that sets it up. Such an undertaking is subject to high degree of executive control and juristically it is not an independent entity. It has no separate budget; its budget is integrated into the general budget which authorizes its expenditures and its revenues form integral part of the earnings by the government. It is subject to budgetary, audit and other controls of the government. Such an enterprise follows all the governmental rules and regulations and is managed by civil servant. Thus it is merely an extension of the governmental arm. This has been the oldest form of public sector industrial undertaking. This has been praised for direct control and despised for its inflexibility which hinders operation on a commercial basis. Even today, where profit is not the major concern and in areas where externalities are significant, there seem to be a latent preference for departmental undertakings by the bureaucracy/politicians in power.

25/ United Nations: Some Problems in the Organization and Administration of Public Enterprises in the Industrial Field, 1954

26/ Other forms of Organizations e.g. quasi corporation (e.g. Railway Board), Control Board (e.g. irrigation control Board) Commodity Board (e.g. Tea Board), Regulatory Commissions (Village Industries Commission), Trusts (Port Trusts), Authorities (Inland Water Transport Authorities), do not have relevance for PSIE

27/ A.S.H.K. Sadique : Coordination and Control of Public Enterprises: an over-view of the Asian situation. ACDA, Kuala Lumpur, 1975, N.S.
Carry Jones: The Impact of Planning and Public Enterprises on Public Administration and Measures for Administrative Reforms in UN: Inter-regional seminar on major administrative reforms in developing countries, Vol III (Part two), 1973

(ii) The Statutory corporations requires specific action by the law making authority of the country, though it is conceivable that a general law of public corporation may be enacted in order to enable the government to establish a corporation as and when necessary. For example, in Sri Lanka most industrial corporations have been created by compliance with the provisions laid down by a special public act.²⁸ Unlike departmental undertakings, these corporation are defined legal entity separate from the government and also the persons who conduct its affairs, but like the departmental undertakings it is set up for specific purpose. The statute defines its purpose, powers, form of management as well as relationship with the government. It is not subject to the budget, accounting and audit procedures of a government department, though the government may retain the right of approval (e.g. Bangladesh)²⁹ or review of the budget; government invariably desires independent audit (even selective government audit as in the case of Bangladesh)³⁰ and government may direct/induce adoption of an accounting procedures (e.g. standard costing in case of jute, textile and sugar industries in Bangladesh)³¹. The statutory corporations are not subject to regulatory or even prohibitory provisions applicable to the expenditure of public funds, though government may issue directives for compliance in certain matters.³² The statutory corporation normally are financed from an initial loan or grant made by the government and later from the contributions by the enterprises (if it is a holding corporation, or from operating revenues (if it is an operating corporation). It is administered by a board appointed by the government. This form is designed to allow flexibility in operation and ensure appropriate accountability through various measures including ministerial control. The powers given to the ministers may indeed be extensive.³³ The statutory corporations are expected to be free from red tape, treasury control and direct political dictation. They are expected to ensure a happy blending of business operational efficiency and public interest. As the areas of operations do have important externalities, these are supposed to uphold national interest over narrow enterprise interest. For public corporation, the

²⁸/ A.R.B. Amerasinghe: Public Corporations in Sri Lanka in International Legal Centre: Law and Public Enterprise in Asia, Prager, 1976

²⁹/ R. Sobhan and M. Ahmad Public Enterprise in an Intermediate Regime, BIDS Dacca 1980

³⁰/ Sobhan and Ahmad (29)

³¹/ Personal knowledge of the author

³²/ Government of Bangladesh has indeed fixed salary scales and emolument for all public sector corporation. See World Bank Report on Bangladesh, 1979

³³/ Mr. Brendon Bracker noted that the (British) Gas Bill empowered the minister to make regulations in 28 places, to give direction in 19 places and to give/withold approval in 20 places. From O.H. Prakash: The theory and working of state corporations, Allen and Unwin, 1962

legacy of the Morrisonian concept is still alive. The purpose built corporate bodies are to provide service (as externalities are important) and play an increasingly important role in harmony with governments' plans but also initiate changes in policy when it is found desirable. These corporations are extended arms of the governmental system (as distinct from being the extended arm of the executive branch of the government) and this becomes all the more important in the context of development in the developing countries.

(iii) The third type of public sector industrial enterprises is the long familiar limited company form. Such companies for being set up, do not require the consent of the law making authority. These can be set up, upon executive decision, through compliance of requirements under company law. The distinctive feature of such a government company is that the entire equity capital is put up by the government, except when it sets up a mixed enterprise. Such a company is wholly autonomous and makes its own rules and decisions in respect of investment, finance, personnel and commercial audit. There is more entrepreneurial freedom and these companies are designed to operate with the norms of private business. The externalities from such an operation is expected to be nothing more significant than those from normal business operation as such they are said to require not much policy directive or executive control. There is however one significant element in that the government appoints its board and retains the right of removal without assigning any reason. Thus this form has indeed been used to evade control of the legislative but less so, of the government.

Comparison of the three forms

A comparison of the three forms of public sector enterprises is given in table I.

Table I: A comparison of the three forms of PSIE

Departmental undertaking	Statutory corporations	Government companies
No law required to establish, executive action	New specific law enacted	Established under existing company law
No equity or loan placed at its disposal.	No equity capital, government provides loan or grant.	Equity is placed as per specified capital structure.
Regular budgetary appropriation made and integrated in governmental budget.	No Budgetary appropriation except for grant or subsidy, is made available	No Budgetary appropriation is made
Government rules, regulations apply mutatis mutandis	Rules and Regulation may need approval or follow given guidelines	Company formulates its own rules and regulations within the limits of prevailing laws.
Follows civil service tradition and grafts Bureaucratic Management	Supposed to follow professional management within a mixed civil service - cum - business tradition	Follows business tradition and encourages professional management
No Board for management - directly under the control of a government department.	Wholly appointed Government Board, theoretically to operate independently of bureaucracy but in practice the position is often compromised	Shareholders Board, if government is 100% shareholder, it may have wholly appointed Board - theoretically, not under the direct control of a government department.
Subject to government audit	Subject to government audit/government appointed commercial audit	Subject to commercial audit
Purpose to establish it is not commercial (i.e. strategic)	Purpose varies from being largely commercial to largely non-commercial	Purpose to establish it is to perform a function which is commercial in nature
The operation is intended to be interventional and thus have large externalities.	The operation is intended to have externalities	The operation is not intended to have much externalities; this is entrepreneurial intervention.
Subject to bureaucratic pressure and political patronage	can be subject to both bureaucratic pressure as well as political patronage.	Supposed to be immune from political patronage and bureaucratic pressure in its operation
This is an internal component of the executive arm of the government and a product of executive policy	This is expected not to be a sub-system of the executive arm of the government but its operational overlap make it a sub-system of the government	Generally not to be regarded as a subsystem of government's executive arm, though it is a product of government's policy.
Parliamentary review is routine	Parliamentary review is obligatory	Parliamentary review is exceptional

Generally, it seems that the organizational forms are products of historical antecedent or of prevailing political/bureaucratic opinion. This has indeed made it difficult to demarcate the determinants of forms of public sector undertakings. But it seems the à priori factors that should influence the choice of the forms are as follows:

- (a) Purpose, function of the enterprise
- (b) externalities of its operation
- (c) significance to national economy and developmental plan
- (d) need for operational flexibility and
- (e) planned financial dependence on treasury .

If the function of the enterprise is commercial in nature with less externalities and least financial dependence, the enterprise is less likely to be a departmental undertaking. Conversely, if the enterprise has significant externalities and pursues non-commercial goals with financial support from the treasury, it is not likely to operate as a government company. In between there is certainly the grey area, where public corporations seem to have flourished but in case of public sector industrial enterprises, such corporations tend to acquire the qualities of wholly government owned companies, provided they do not operate in loss.^{34/}

Experience of some developing countries

For public sector as a whole, there seem to be little consistency in respect of the choice of organizational form. But generally many countries tend to regard public corporations as the most suitable form for public utilities and government company as the preferred form for manufacturing enterprises. India is a case in point. In India, Industrial Policy Resolution of 1948 did envisage corporations through which medium public enterprises would be managed. But as the government got involved in mining and manufacturing the possibility of large number of enterprise to be set up, need for flexibility in operation to incorporate gained experience and difficulties in actualizing working autonomy led to the recommendation that where the nature of work was commercial, the joint-stock company form

^{34/} UN: Organization and Administration of Public Enterprises - selected papers, 1968

was to be preferred.³⁵ Since then government of India have adopted company form for manufacturing and mining enterprises despite views expressed to the contrary by the estimates committee.³⁶ India has 90 mining and manufacturing enterprises in public sector and of these 84 of them are in the company form.³⁷ All PSIE in Pakistan are organized in company forms. This is a historical legacy. Pakistan, from its very inception was committed to a strong private sector and public sector ventures were to be promotive and supportive in nature. Pakistan Industrial Development corporation (PIDC) was organized as a statutory corporation with a purpose to develop industries and disinvest them when profitable. Because of this, each industrial unit was developed as a project at the time of implementation if this was solely financed by the government and it was later converted into a company and in case of joint ventures with private sector, they were instituted as a joint stock company ab initio. Thus PIDC became a holding corporation for operating companies. The same principle was followed when in early 70s Pakistan took over many industrial units and placed them under holding corporations. In the manufacturing and mining sector, Pakistan has 11 holding corporation (including one Board) which had 89 companies under them.³⁸ Thus in Pakistan, preference for joint-stock company seem to be quite explicit. Malaysia seem to have, in general, preference for statutory corporation as the activities are considered promotional in nature. From 1970 onwards government companies seem to be gaining grounds slowly. In 1974, there were 59 public enterprises in the form of public corporation, 10 as wholly owned companies and 13 as partly owned companies. Of these only five were undertaking manufacturing activities along side 18 regional development agencies. They have a number of subsidiaries and joint ventures in the form of companies.³⁹ Thus, for manufacturing sector, there is a preference for company form of organization prompted by the desire of private participation by Bhumiputra.

³⁵ Report on the efficient conduct of state enterprises, Planning Commission, Government of India, 1951 and decisions of the Government of India on the recommendations contained in the report of the Krishna Menon Committee and other reports on the running of public sector undertakings, New Delhi 1961

³⁶ Estimates committee, 80th and 86th report, 1970

³⁷ Government of India: Public Enterprise Survey, 1978-79

³⁸ Reza H. Syed: Role and Performance of Public Enterprises in the Economic Growth of Pakistan, IACP, 1979

³⁹ Raja Mohammed Affandi bin Raja Halim: Coordination of Public Enterprises: country study for Malaysia, ACDA, Sept. 1975

In South Korea, the dominant form of Public Enterprise in manufacturing seem to be a joint-stock company under a holding company. The Korea General Chemical Company, a holding company has eight joint venture companies under its jurisdiction. Agricultural and Fisheries Development Corporation promoted 23 subsidiaries and disinvested most of them by 1974. Korea Development Bank also holds controlling share in certain industrial enterprises. Besides there are joint-stock companies promoted directly by the government. Hence, in the milieu of private sector orientation, Korea has opted for company form as well. 40/

In Indonesia, since 1969, public enterprises have been regrouped into Perjan (departmental agency), Persero (limited companies) and Perum (Public corporations).^{41/} Perjans are few in numbers and generally provide public services or commodities that the government as a matter of policy considers vital for public welfare and provision of these services necessitate the use of protective measures and/or government subsidies. These perjans operate as government institutions and considered as administrative department of the government. Perseros are limited companies which are wholly or partly owned by the government. The organization and management structure of a Persero closely approximates those of ordinary, public limited companies and operate as profit-making units under normal circumstances. Perums are public corporations with limited profit making potential and large member of them provide services and utilities. In June 1973, there existed 36 perums, 98 perseros and few perjans. Thus, under the present government, preference for limited company operation is known.

40/ Sooh Yu: Coordination of Public Enterprises: country study for Korea, ALDA Sept. 1975

41/ Rudhi Prasetya and Neil Hamilton: The Regulation of Indonesian State Enterprises in International Legal Centre: Law and Public Enterprise in Asia, Prager 1976

Bangladesh also manifests the existence of these three basic types of public enterprises e.g. departmental undertakings which operate directly under a ministry or an agency as an extension of the government function and are features of executive decision ; wholly owned public corporations with seed capital provided by the government but who are autonomous in respect of their budget, asset ownership, modes of operations, procurement of fund within the broad rules and directives of the government; and public limited companies operating under the company law. But for all practical purposes, the industrial units so registered prior to 1971 and put under the sector corporations do not follow the management and organization of a company in spirit as government has suspended certain provisions of the company law in respect of the units under public corporations and thus they manifest the characteristics of projects' undertakings of a wholly owned public sector industrial corporations which are not vastly different from departmental undertakings except for the status of office of top management and scale of operation of the units.^{42/}

Some observations on legal forms of organization

With limited observation, as has been cited above, it is difficult to make generalized observation. However, we have recourse to certain other studies and reports which make it somewhat easy.^{43/} Even then, the observations are impressionistic as data to substantiate them are not readily available.

First, departmental undertakings are the result of executive impulse in response to particular situation which required more than the "normal" governmental efforts.

Second, as the departmental undertakings get naturalized, with majority of power elites in the bureaucracy/government, they find a responsive base for expansion. The areas most clearly suggestive of

^{42/} R. Sobhan and M. Ahmad: Public Enterprise in an Intermediate Regime, BIDS, Dacca, 1980

^{43/} UN: Organization, Management and Supervision of Public Enterprises in Developing Countries, 1974

UN: Measures for Improving Performance of Public Enterprises in Developing Countries, 1973

UN: Public Industrial Management in Asia and Far East 1960

expansion are strategic, infrastructural or welfare areas of government operation.

Third, shift away from departmental undertakings seem to be sparked by governments closer involvement in economic development efforts of a country requiring faster than bureaucratic response and thus autonomy of operation. The underdeveloped nature of the economy necessitates governmental direct intervention and often prompts to emphasize the promotive and supportive activities which can be readily accommodated in public corporations.

Fourth, public corporations expand with the intensity and extensity of governmental involvement and moves into commercial activity zone along with the promotive and supportive activities. This happens more in case where the local commercial bourgeois is slow in its emergence and/or where the government is committed to some form of socialistic pattern of society vouching egalitarian approach to growth.

Fifth, there will be a parallel growth of public limited companies or shift away from public corporation in cases where private sector is encouraged or gains strength through aid intervention. There would also be shift away from public corporation in mature developing economies where unit-autonomy becomes necessary for operational efficiency.

Sixth, in early stage of governmental involvement, company form may predominate in case the public sector is largely composed of nationalized, taken over, abandoned or sick private sector units.

Seventh, departmental undertakings are popular with bureaucrats, public corporations with politicians and public limited companies with the managerial executives. The possibility of secondment of civil service personnel to corporations make that form acceptable to both bureaucrats and politicians while the practice of putting companies under a holding corporation make the corporate form acceptable to both bureaucrats and managers.

Eighth, though autonomy has been made the sine qua non for public corporations, but in practice this autonomy may indeed erode very fast for control and circumstantial reasons. Hence, it is efficiency, which in the last analysis ensures autonomy, should be the criterion for selection of the form of organization. However, it is recognized, it is difficult to abstract away from the individuals in management in matters of efficiency.

Ninth, there is a general company law, could there also be a general public corporation law? Further, the company law codified for private sector possibly requires certain amendments to suit the public sector enterprises. If that is done, we may indeed end up with one organizational form for public sector industrial enterprises.

II ORGANIZATIONAL FORMS, INSTITUTIONAL SYSTEMS AND
MANAGEMENT IN PUBLIC INDUSTRIAL ENTERPRISES

The first impact of the differential organisational form of public enterprises is on the presence/absence and where present, on the nature of the Board for direction and/or management. A departmental enterprise does not have a Board. It is directly under the Ministry. It is managed by an executive who is in the service of the government. On the other hand, a government company or a statutory corporation has a Board of Directors. In the case of the company, it is managed by a whole-time chief executive and on top him, there a policy board of part-timers; the chief executive normally is, but does not have to be, a member of the board. The corporations have varied experience. At the one extreme, it has a functional board with the chief-executive (Chairman) and functional heads as members of the board. At the other extreme, it may also have a policy board with an outsider chairman (Minister or Secretary) and majority outsider part-time directors (mostly if not wholly from civil service) with the chief executive and some functional heads represented on the board. In between, it could be a board with chief executive and functional heads forming the majority with minority part-time outside directors from controlling or related ministries and/or interest groups (ie employees, consumers, political party etc.).

This different forms of direction/management need be viewed along with the background of the chief executive and functional director(s) on the board. If the chief executive and the directors are on secondment or on post retirement placement from civil service; the difference between a departmental enterprise and a company or a corporation collapses to nullity. Only in the absence of the dominance of the civil service, the functional forms gain their differences in character. Thus the organisational form without consideration of incumbents lend us no support to conclude in favour of corporation or company form in actual impact on management of the public enterprises. This indeed would be our recurrent theme as we explore the differential impact of organisational forms on institutional system and management style in public enterprises.

Guyana has entirely non-functional policy boards for public corporations. Here the chief executives of the enterprises were not members of the Board. In Venezuela, the boards are composed of non-functional directors except for the full-time President. In Mexico, the boards are mostly made of non-functional directors with Minister or a civil servant as the chairman and most of the members of the board are civil servants. The majority of public

industrial enterprises in India have non-functional Policy boards which include the full-time Managing Director/Chairman. There are few enterprises in India whose boards are composed entirely of civil servants; but it is common to have majority of board members from the Government.^{44/} In Pakistan, post-71 syndrome was to have Policy boards with Chairman and civil servants represented; the exception were the old Industrial Development Corporation which had the functional board with full time Chairman and Directors. There were however civil service secondments in the board. Bangladesh, followed, the practice of functional board in industrial corporations. There were few civil service secondments. In U.K., there is the policy board with strong full-time representation of the enterprise on the board; U.K. also avoids appointing civil servants to the board of public enterprises. The picture is a melange and case studies of significant proportions are not available even to look for a management paradigm.

Authority, hierarchy and leadership

Authority is a function of formal organisation. Authority implies right to make decisions and enforce them; these are also the duty of the status relationship which is inherent in authority as it is the authority of one status that is exercised over another status (not that of a person over another person). The exercise of authority involves institutional (not personal) relationship as authority relationship is one of superordination and subordination of roles. Authority is often confused with competence, a personal quality of ability which help exert influence and also with leadership which is also a personal quality which help establish dominance and submission in interpersonal relationship. Competence (ie ability) and leadership help exercise of authority, but authority, per se, is merely legitimate or otherwise ie it is either sanctified or not by law, order or custom. The function of authority is to standardise norms and also standardise roles into status and these norms and status together create the organisational structure and hierarchy. This is needed to support, sanction and sustain authority itself. However, it is to be noted that power, often confused with authority, need not have legitimacy, but the authority, legitimised by the system, can wield power. A good system is one that is based on the consent of the constituents: as authority even

^{44/} UN: Organisation, Management and Supervision of Public Enterprises in Developing Countries, 1974

though legitimate to be effective, need acceptance and therefore modern contemporary behaviourist thought puts emphasis upon motivation, persuasion, participation, information, approval and confidence for effectiveness of authority.^{45/}

The management subsystem and the authority structure in an organisation are interactively related to ensure role performance for achieving organisational goals. Both are rooted in the division of labour with continuity of function, specified sphere of competence and sequential as well as interdependent relationship. Management sub system with the authority structure ensure performance of task, introduce changes due to an internal and external stimuli and provide supervision of organisationally required acts as well as exert corrective and innovative inference.^{46/}

The authority structure become hierarchical when in order to reduce interpersonal transactional costs it is possible to devise tasks that require minimal creativity and also to group similar and related jobs and when environmental demands on the organisation for change and adaptation are unimportant. (In the opposite case, a democratic organisation becomes necessary). The resulting pattern of hierarchical relation is always asymmetrical and transitive.^{47/}

Leadership is certainly an attribute of personality, and desired characteristic of certain position. But in the context of an organisation and, thinking behaviourally, it can be defined as an act of incremental influence over and above mechanical compliance in matters relevant to the organisational task. The leadership is important because no organisational design prescribe for every possible contingency, because the organisations, as open system, need adjustments to changing environmental conditions, because organisational stability in the face of internal dynamics need be actively maintained; as nature of the influence of extraorganisational influence on human membership

^{45/} H.A.Simon: Authority in C.M. Arsenberg etal (ed):
Research in Industrial Human Relation, Harpr and Brothers, NY, 1957.

^{46/} Katz and Kahn: The Social Psychology of Organisation, Wiley, 1966

^{47/} Katz and Kahn: (47)

often disrupt organisational pattern of norms of behaviour and activity. It need be realised that leadership has distinctive type function-which are performed at various levels of the organisational hierarchy. At the lowest level it concerns routine use of prescribed norms with consistency and appropriateness for organisational effectiveness. At the middle level, leadership performs interpolation function involving development of ways and means for implementing existing policies to mediate and temper the organisational requirements to the needs of the person/situation in order to enhance organisational effectiveness. Finally, at the top level, the leadership function is involved in policy origination for "dynamic adaptation of the total organisation to its own internal strivings and to its external pressures."^{48/}

There are not many case studies of the various types of organisational form in public sector industrial enterprises and their authority-hierarchy-leadership milie of any country, not to speak of the variations that intra-country situations would introduce. But many impressionistic observations in this respect are available, particularly from the enterprise studies.^{49/} This was further supplemented by interviews conducted by the Author in 1979-81 with various level of functionaries in the different types of public sector industrial enterprises in Bangladesh. It is difficult to claim any generality but the results are presented below in a tabular form for what they are worth.

^{48/} P.Selznick: Leadership in Administration, Row, Peterson, Evanston 1957 and Katz and Kahn (47).

^{49/} IDRC financed and co-ordinated Public Enterprise study generated sixty specific study of enterprises of different organisational nature. Ref: A.T. Rafiqur Rahman: Organisation, Management and Review of Public Enterprise Research Network in Asia(Memo), UNIDO Expert group meeting on the Role of

Table 2: Authority, Hierarchy, and Leadership in differing organisational types in Public Sector Industrial Enterprises

Departmental Organisation	Statutory Corporation	Government owned Company
1. Size is small in terms of investment and number of employees	Size is large, often very large in terms of investment and/or employees	Size medium in terms of investment and number of employees
2. Direct link with Ministry transcends bureaucracy	Generally bureaucratic in nature	Much less bureaucratic
3. Authority structure formal and static	Authority structure formal and generally static	Authority structure, except for the top, less formal and less static
4. Status consciousness high throughout the organisation	Status consciousness is present, between positions of same level low but between position of different levels high	Status consciousness as perceived by lower levels about top level high: below mid-top level minimal
5. Authority based on role-status	Secured personnel in authority exercise it on the basis of role-status, people on contract on the basis of competence and for others it seem to vary	Authority is based on role-status and competence
6. Acceptance of authority very high	Acceptance of authority seem to vary widely	Acceptance of authority high
7. Consent of constituents absent	Consent of constituent in exercise of authority feeble but growing overtime, particularly in matters affecting personnel motivation and reward	Consent of constituents in exercise of authority generally absent
8. No formal organogram but operates on the basis of sanctioned posts	A formal organogram is there, is elaborate, not much change overtime	An informal organisational structure is there and there seem to be a generous flexibility in the middle within departments
9. Organisational structure tends to be pyramidal with increase in size	Generally pyramidal	Seems to have a flattened middle
10. Even top management generally provide mechanical compliance, exceptionally taking initiative	Top Management tend to provide incremental influence but may be forced to accept more of general compliance	Top management has generally provided incremental influence, but there are exceptions
11. Has not demonstrated much of an adjustment to changing environment except for awareness of significant changes in the environment	Has adjusted well to internal dynamics of organisational sub-systems, moderately to environmental influence on individuals in the organisation	Has adjusted well to changing circumstances except for major environmental change
12. Use of prescribed rules with consistency and appropriateness is significantly high	Use of prescribed norms with consistency is reasonable	Use of prescribed norms with consistency is variable
13. Matching organisational requirements to the needs of persons/situation is minimal	Matching organisational requirement to needs of persons and to needs of situation better than Departmental Organisations	Matching organisational requirements to needs of persons is minimal, but to needs of situation is high
14. Dynamic adaptation of organisation is conceptionally absent	Dynamic adaptation of organisation is not significant	Dynamic adaptation of organization is higher, still not significant

Delegation, departmentation and internal co-ordination

Delegation of responsibility, based upon systematic sharing of executive authority-cum-accountability represents the fusion of management structure with management action. Delegation to be effective, need be clear, stable, continuous in terms of responsibilities and relationships which is made possible by policy directives, centrally designed system timely flow of management information and appropriate provision for co-ordination and communication. The success of delegation depends on competence, reliability and outlook of the subordinate executives as much as it does on the superior executives' ability to direct, his confidence in his subordinate and his willingness to take chance and give credit.

Delegation presupposes departmentation and/or divisionalisation of the organisation in terms of function, purpose, process, product, clientele, location or attributes of this nature. Departmentation provides a horizontal structure of management generally based on functions. Delegation also requires institution of a supervisory system which is institutionalised through chain of command and span of authority. The management structure indicates the span of supervision over the levels immediately below. The vertical structure connects these centres of supervision in the chain of command which is also called the line of communication.

Co-ordination in any organisation is facilitated by:

- a) clear formulation of policy with implication for different department communicated to appropriate levels for desired management action;
- b) properly defined responsibilities, particularly in respect of inter relationship of departments;
- c) co-operative attitude of involved management personnel;
- d) well-designed procedures for co-ordination actions; and
- e) timely circulation of required information.

Based on a similar set of case studies as mentioned in the earlier section, and without any claim of generality, the comparative position between the three forms emerges as follows:

Table 3: Delegation, departmentation and internal co-ordination in the three forms of Public Sector Industrial Enterprises

Departmental Enterprise	Statutory Corporations	Government Company
There is delegation of work but minimal delegation of authority	Delegation of work and in theory formal delegation of authority	Delegation of work and some delegation of authority with increment in size
There is clear understanding of work responsibility which seem to be stable between positions and continuous overtime	Clearer work responsibility, often rigid and thus continuous	There is a clear understanding of core work responsibility but total responsibility found variable at the middle and the pattern of responsibility not necessary continuous
No written policy directive except for discrete changes; Policy considered stable	Both written and verbal directives and considered less stable	Generally no written policy directives
No centrally designed system for delegation and operation, but the system operating is functionally understood	A top-down system is operative but clarity, at times, is lacking	No centrally designed system as such but a top-down perceived system is operating
No Information System	Some form of Information System, often imperfect, is there	No Information System but flow of limited information ensured
Superiors ability to direct vary	Superiors ability in professional/technical area good but in other areas vary	Superiors ability to direct considered good
Subordinates competence often questioned	Subordinates competence vary widely	Subordinates generally considered OK
No formal departmentation	Generally a formal departmentation, sometimes not well designed	Some practised departmentation
Span of supervision is wide at the top	Span of supervision seem to be generally systematic - wider at bottom and narrower at top	Span of supervision, wide at the top for small companies; wide at the middle for larger companies
Autocratic coordination ie coordination by command	Problems of co-ordination greater; often competitive departments disagree; coordination through meetings and committees	Co-ordination through function and in case of problem through persuasion and lastly command

Communication, information and decision flows

In modern management communication is often labeled as the very essence of the organisational system as it provides the mechanism for information flow and transmission of decision. Full and free information flow helps identification of problems as well as their solution.

The direction of the communication is downward along the hierarchy, horizontal among 10 peers or upward along the ascending order of control. The communication downward basically relate to specific job directives, information for understanding of the task in relation to organisational objectives and functions, information about organisational procedures and practices, feedback on job done and indoctrination of goals. The lateral communication has the job of facilitating co-ordination, creation of a sense of organisational unity and furnish support for specific job. The communication upward concerns subordinates performance and/or problems, problems created for/by others, problems in application/interpretation of organisational practices and policies and what needs to be done as well as how it can be done.^{50/} However there is no study of the distinctive type of communication which flow in these three distinct directions.

However, it should readily be recognised that value of a communication depends on correct perception by the recipient. To be effective, the communicatee needs to have appropriate expectation and the communicator the appropriate knowledge of the expectation. In other words they need to be on the same wave length. Communication normally would make demand on the recipient ie do something, be somebody, etc. Any communication would prompt appropriate action if it fits in with the values, norms, purposes, aspirations of the recipient. Communication is dependent on information which is specific, and impersonal and thus need be differentiated from perception. There is a distinct view that communication downward cannot work because it centres on what the top level management wants to say and thus it always degenerates to command.^{51/}

Modern organisations have stressed the need for collecting, analysing, preserving information relevant for organisational effectiveness. The effectiveness of the information system depends on the extent of relevant

^{50/} Katz and R.L. Kahn: The Social psychology of organisation Wiley, N.Y. 1966

^{51/} Peter Drucker: Management: Tasks, Responsibilities and Practices, Pan Books, 1979.

organisational activity covered by it, whether the nature of the system is merely repetitive or subject to modification, whether the system allows for a feed back and the extent of speed and accuracy that the system permits. These information, raw analysed, or interpreted is a specific but important type of communication. The flow of such information is in general upward, and at times lateral.

Communication and information flow is intended to help generate counter flow of decisions. There are various phases of decision-making process. The first is the identification of a problem. In the curative type the problem identifies itself. In the preventive type there is a need for intelligence activity ie "searching the environment for conditions calling for decision"^{52/} The second phase involves analysis of the problem ie a study of basic dimensions of the problem in depth including the organisational context; inventing, developing and analysing possible courses and consequences of action and finally, selecting and implementing the chosen solution.

All problems do not have the same character, and they therefore, do not require the same rigour for decision. Some problems are routine, specific, known and expected. For them programmed decision is feasible. There can be a definitive procedure worked out for them as a detailed prescription would govern the sequence of responses to this problem.^{53/} On the other hand problems could be novel, strategic, not fully known and somewhat unexpected. There would be a great demand for judgment, intuition, creativity in decision making. In reality there is a continuance of problems ranging from highly routined to highly unexpected and decisions are thus highly programmed at one end and totally unprogrammed at the other. The routine information identifying an expected problem would evoke a programmed solution and procedural communication as decision for implementation. It is the information analysed and interpreted that helps identification of non-routine problem which require a non programmed solution which cannot always be conveyed through procedural communication of decisions. The organisations for effectiveness need these flexibility. In this case, the enterprise studies referred to earlier did not help We had to mount a small search for information involving 2 sector corporation, 5 Government companies and 1 departmental enterprise in Bangladesh. Thus the generality of the findings cannot be claimed.

^{52/} H.A. Simon: The new Science of Management Decision, Harper and Row, 1960

^{53/} H.A. Simon: (53).

The data is further biased by the co-operation received from the various locus of office and the decision to look at communication and decision in past one month rather than randomly selected days over a year. Even then the results are interesting and not unexpected on a 'priori' reasoning. They are presented below:

Table 4: Communication, information and decision flows in three forms of organization

Departmental Enterprise	Statutory Corporation	Government Company
Communication is formal, almost invariably written in file	Communication mostly formal and in files, sometimes in memos	Communication generally formal in the form of written memos, though verbal type is prevalent
Types of downward communication Procedural - 55% Job-directed - 18% Evaluation of job done - 11% Personnel matter- 9% Others - 7%	Type of downward communication Procedural - 52% Job-directed - 23% Evaluation - 15% Personnel - 6% Others - 4%	Types of downward communication Procedural - 36% Job-directed - 38% Evaluation - 18% Personnel - 5% Others - 3%
Types of Horizontal communication Insignificant	Types of Horizontal communication Information only - 8% For coordination - 71% For support - 21%	Types of Horizontal communication Information only - 20% For coordination - 50% For support - 35%
Types of upward communication Procedural - 76% Reports - 5% Own problems - 8% Other problems - 3% Suggestions - 1% Others - 7%	Types of upward communication Procedural - 61% Reports - 13% Own problems - 2% Other problems- 2% Suggestions - 2% Others - 20%	Types of upward communication Procedural - 56% Reports - 20% Own problems - 2.5% Other problems- 2.5% Suggestions - 2% Others - 17%
Type of decision/mean numbers of hierarchy involved/meantime for decision Routine - 3-4/12 working days Non-Routine - 8-9 /39 working days Non-Routine (strategic) - 4-5 /7 working days	Types/no of level/meantime Routine - 5-6/23 working days Non-Routine - 10-13 /56 working days Non-Routine (strategic) - 6-8 /6 working days	Types/no of level/meantime Routines - 3-4/10 working days Non-Routine - 8-11 /27 working days Non-Routine (strategic) - 4-5 /5 working days
* including extra-organisational hierarchy	*including extra-organisa tional hierarchy	*including extra-organisational hierarchy.

Personnel policy, motivation and participation in management

There are many things said about the distinctive differences between private and public enterprises. But it is realised that money, machine, material have no preference for either of these and thus demonstrates no distinctive differences in the employ of either of these. The differences crop up with the human factor in production - man and management.^{54/} The UN study on public enterprises in developing economics identify, among other factors, the restrictions and obligations attendant upon personnel management rules as one of the major factors affecting adversely their performance.^{55/} Another UN study identified the personnel problems that distinctly characterize public enterprises;^{56/} these are recruitment and service conditions, managerial compensation, incentives for workers and managers, motivation and employee participation in management.

(i) Recruitment and service conditions

In an economy with restricted private sector, there is possibly a logic to subject the personnel of public enterprises, whatever the form to normal regulations, procedures and salary scales as is prevalent for civil service system, provided there is a government committed to socialist egalitarian philosophy and its endeavours are backed by a committed group of cadres.^{57/} But even then the question of differentiated system for productive and regulatory sectors could become important. China is a case in point.

All available case studies^{58/} show that departmental enterprises started with a nucleus of personnel drawn from government services. The same is generally true of statutory corporations though few exceptions are noted. Only in the case of Government companies, it seems there are at least as many cases of exception as there are of compliance to this norm.

^{54/} Muzaffer Ahmed: Problems and Prospects of Nationalised Industries in Bangladesh, The Journal of Management, Business and Economics, 1975

^{55/} UN: Measures for improving performance of public enterprise in developing countries, NY 1973.

^{56/} UN: Organisation, Management and Supervision of Public Enterprises in Developing Countries, NY 1974

^{57/} Government of Bangladesh, Planning Commission: First Five Year Plan, 1973-78, and R. Sobhan and M. Ahmad: Public Enterprise in an Intermediate Regime, BIDS, Dacca, 1980

^{58/} IDRC case studies referred to earlier and interview conducted by the author.

The Government service people in departmental enterprises remain committed in maintaining the personnel service condition, structure including nomenclature and salary scales etc. as far as possible. The only divergent attitude seem to be the perquisites of officials placed with the enterprise. In case of statutory corporation, this tendency is generally recognised. But there seem to be general acceptance that salary need be somewhat different to attract qualified people away from private sector and perquisites may also be different to compensate for absence of prestige of civil servant. This is however not true for the public sector dominant economies. The government owned public limited companies seem to have done even better, partly because of greater professional orientation of the top executives in these enterprises. The service rules, salary scales, and other personnel benefits seem to come closer to the established large operating companies in the private sector.

The departmental enterprises do not have personnel departments, unless it is a large one. In that case it forms part of the general administration with labour affairs separated out. Consequently, personnel function - search, recruit, orient, train, place, observe, promote, retrain, separate etc. - goes entirely by default. Similar seems to be the case with sector corporations, some of which, do have a personnel department even then they follows suit partly because the department was created late and also because it is not headed by people with appropriate expertise. Indian sector corporations seem to be placed in relatively better position - primarily because of availability of large trained manpower, even though public sector is at a disadvantage vis-a-vis private sector. The government companies have not done much better, partly because in many cases personnel rules are subject to government approval and also because top appointments are made with government consent.

The departmental enterprises have no freedom in matters of creation of posts, have no latitude in determining salary levels and scales, have no scope of recruitment by itself from any source and at any level, can not generally promote anybody on consideration of merit and no power to retrench quickly or dismiss without elaborate process. The case studies of statutory corporations suggest that they have some freedom in creating junior level posts provided this have been budgeted earlier; have limited scope of determining salary level but scales need earlier

concurrence, have scope for recruitment at all levels, except the top, provided a vacancy exists and there exists no general embargo by the Government, and promotions seem to take merit as a criterion but seniority predominates, but in matters of retrenchment and dismissals the procedures are complicated. The limited companies in the government sector seem to have greater latitude in operation in all these matters except those related to top management in the company.

(ii)

Employee compensation

Available data on workers compensation in public enterprises suggest that they are better than those paid on average in the indigenous private sector, but normally lower than the average paid by the multinationals. However, these averages may indeed be misleading because of the differential activity composition. The indigenous private sector has a large component of small industries while in addition, multinationals follow the work-and-productivity standard set in a different production milieu. Comparison of comparable job in similar industries suggest that total compensation over the life of a worker is somewhat better than those in the private sector, but not very much better while total compensation similarly computed are very much better with the multinationals.^{59/} However, between the three forms of public enterprises within a country and without adjustment for activity, a government company pays more in comparison with either statutory corporation or a departmental enterprise and between the latter two moneywage differentials seem to be statistically insignificant.^{60/}

However, compensation for managers seem to be generally lower for all public sector enterprises, much lower compared to multinationals. Within the public enterprise sector, the degree of differential is lowest for limited companies, and highest for the departmental enterprises. It may be of interest to note the findings of U.K. National Board for Prices and Income in respect of top salaries in the private sector and nationalised industries. They are as follows:

(i) Except for lower levels, salaries prevailing in the nationalised industries are substantially lower than those in the private sector:

^{59/} Studies conducted on Wage and Salary Structure in Pakistan, 1969.

^{60/} Internal Studies conducted for Minimum Wage Structure in Bangladesh: IWWC, 1979 (typescript).

(ii) Retirement benefits, being tied to final salaries, are lower than those in the private sector:

(iii) Position for position, the differences in salaries in private and public sector, is not explained by differences in responsibilities, in so far as they are measurable; and

(iv) benefits in kind and other fringe benefits are a small part of total remuneration in either sector and thus differential due to that does not matter.^{61/}

A study on prices and income of executives, divided into top, middle and junior, in 2 sector corporations, 5 government companies and 1 departmental enterprises in Bangladesh, reveal the following:^{62/}

(a) At the junior level, the total compensation average of management employees in departmental undertakings and sector corporations are not statistically significant (10% level), while the difference between either of them and government company is statistically significant (10% level):

(b) At the middle level, the total compensation average of government company employees remain higher at a statistically significant (10%) level compared to the same in other two forms of organisation; the salary average between the departmental undertaking and statutory corporation is significantly different at 15% level of significance;

(c) At the top level, the total compensation average of government company managers remain higher at a statistically significant level (5% level) compared to the same in other two forms of organisation; the salary average between the departmental undertaking and statutory corporation is significantly different at 10% level of significance.

Compared to civil service, the salary in public sector corporations seem to vary from being similar (Bangladesh, Nigeria) to higher (Guyana, India). In cases of government companies, they tend to show similar pattern with added vigour.

(iii) Incentives

There seem to be plethora of confusion created in matters of incentives for employees in public sector. In the private sector, extra

^{61/} U.K. National Board for Prices and Income: Top Salaries in the Private Sector and Nationalised Industries, Report 107 Cmmd 3970, London, 1969

^{62/} Based on interview conducted by the author.

payment (ie bonus) is paid on profit which the company makes through its production - marketing strategy. In the public sector, there may indeed be no profit in a particular plant because of long gestation period, low capacity utilisation due to demand and/or supply constraint, governmental policy to keep prices low for over-all national benefit and so on. Further, if public sector enterprises are thought of making policy profit only and that surplus so generated are to be viewed as part of resources so available instead of through taxation, public sector profit may need to be viewed differently. Finally, should the managerial class be entitled to bonus.

The departmental undertakings seem to pay no bonus. The sector corporations seem to pay bonus only at the enterprise level or at times at the corporate level up to a level of management. The companies pay bonus to workers and lower level management. In some cases one (festival) bonus has become more or less mandatory. But there seem to be no comprehensive study of the impact of bonus on productivity in the public sector.

(iv) Motivation:

There are many different ways of motivating individuals. One is to create his stake in it - give him enough so that he fears loss of job. In addition, one may create motivation for work through sanction - more pressure and scrutiny. Third, motivation may be created through recognition, approval or reward. Finally, motivation may indeed be created through participation.

The bureaucratic management tend to opt for sanction and partly for reward. The democratic management invariably opts for participation and recognition. Motivation through monetary compensation seem to be the basic assumption in both the cases; however the level may vary because of the type of management.

On an a priori basis, it is easy to predict that a departmental undertaking would by definition adopt the conventional motivating approach ie tightening controls, strengthening sanctions, exerting pressure, exhortation and reshuffling personnel. Fear, disapproval, and non-recognition seem to be the basic criterion. Similarly, a government company in addition to appropriate scrutiny and sanction in cases of disapproval would tend to adopt reward for creditable job as the basic mechanism. Statutory corporations seem to do both. Participation do not

seem to be anybody's preference except in the countries where it has been politically instituted. In conventional terms appropriate work environment assisted by a forward looking personnel policy should provide for adequate motivation in a non-hyper inflationary or a recessionary economy.

(v) Employee Participation in Management

Different systems of employee participation in Management are found in different parts of the world. This is indeed true for the public enterprises across the nations. This has evolved as part of the industrial relations policy (e.g. joint consultative committee in U.K., India), ownership pattern (e.g. employee owned units in U.S.A.), management policy (e.g. tripartite board in France) or political philosophy (e.g. self-management in Yugoslavia). Depending on the genesis and objective, employee participation in management has different roles to play.

In terms of the forms of public enterprise, the system is immaterial. Except that, departmental undertakings in most cases seem to be immune from such pressures; the companies are possibly easily adaptable to the system while statutory corporations seem to be under heavy pressure from the large body of organised labour.

I shall only quote the following from an earlier study of mine:

"The issue of worker participation evokes varied responses from the practising managers and labour leaders. The authors interaction with management, labour, labour leaders and labour administrators had led him to believe that participative management can only be founded on TRUST:

- (1) TTrue education and correct perception in the participation philosophy and mechanism,
- (2) RResponsible labour organisation and RResponsive management,
- (3) UUnity through cultivated confidence,
- (4) SSharing authority, responsibility and benefits equitably; and
- (5) Thrust in the social, political and economic arena to promote participation."^{63/}

Thus it would be seen that it is an aspect of social engineering rather than forms of organisation.

^{63/} Muzaffer Ahmad: Labour Management Relation in Bangladesh in Workers' Self-Management and Participation, Vol.1, International center for Public Enterprises in Developing Countries, Ljubljana, 1980

Co-ordination, control and autonomy

(i) Co-ordination

There certainly exists a great deal of confusion about co-ordination which in bureaucratic parlance seem to be a pseudonym for control. Since we shall be dealing with control separately, we shall deliberately ignore co-ordination through control and concentrate on coordination through discussion, persuasion and agreement. It should also be made clear that we intend to discuss inter unit coordination in the public sector. In the perfect free market economy, all required coordination would be made through the market and since public enterprises are established, among other reasons, for market failure or limitation of market in achieving the goals, we need to recognise the need for extra-market mechanism for coordination.^{64/}

The need for coordination, globally, is collective. If we assume that the public enterprise system has a purpose - social change, social welfare maintenance etc. - it is unlikely that it could be achieved through fragmented, distrustful activity, rather it is more likely to be attained through positive reinforcement of each other.^{65/} But unfortunately public enterprise system has not been able to establish this group culture effectively in any mixed economies because the enterprises have a fragmented view of the system.

Sectorally, the most potent reason for coordination is linkages. This is most visible in centrally planned economies. In mixed economy the advocacy is for market, open tender and lowest price which is not followed in private sector anywhere. These may create a short-run advantage for the intaker of the product/service to the neglect of a long-run advantage of both. If the concerned units would co-operate about standardisation, product planning, output supply and agreed price, they could both benefit from such an approach. Needless to say at the time of investment, such units were indeed considered complementary. But incomplete co-ordination procedure keep the actual complementarity at bay. There is no law against such public enterprises getting together, but there are pressure groups which make such an approach almost impossible.

^{64/} Muzaffer Ahmad: Political Economy of Public Enterprise in E.Mason and L.P. Jones(Ed): Public Enterprise in the Mixed Economy LDCs, Harvard University Press (forthcoming).

^{65/} Nitish De : Coordination of Public Enterprises: Country Study for India, ACDA, 1975.

There is indeed a great need for coordination in certain policy matters, ^{65A/} notably personnel policy. Certain variation in personnel matters would remain, but the general principles of personnel recruitment, development, reward, and retirement etc. need be coordinated to reflect the basic approach of the public sector in this matter. This is often effectuated through control and directives but it could be better achieved through consultation and knowledge of each others specificities. Otherwise, in case of short supply of qualified people, there appears to be a continuous redistribution of limited stock through bidding one away from other and inappropriate climbing of hierarchical ladder without ensuring maturity or efficiency.

Further, in the interest of proper utilisation of resources, e.g. capital, there is a case for closer coordination amongst complementary as well as competitive enterprises particularly in the public sector. The advantage is the same as that accrues to a multi unit/ multi-product company. Some of this advantage is attempted to be had through sectoral corporations and holding companies in the public sector but the results of such organisational effort has not been fully appraised.

Finally, the minimal coordination amongst public enterprises without any prejudice would be the information pool about each other and related matter. This would create a basis for exchange of views and climate for group identity as is done by the Chamber of Commerce and Industries in the private sector. Except for the Indian example of Standing Conference of Public Enterprises, there do not seem to be any attempt in this direction and for that matter, SCOPE's impact has not been evaluated either.

Survey of Asian and African scene convinces us that there has been no systematic inter-enterprise coordination in the public sector except through the control mechanism of the government.

(ii)

Control

Appointment of top management

Government control over public enterprises seem to be extensive. The most notable is the owners prerogative to appoint the top management -

^{65A/} Public Sector Industry Coordination and Support in
"Institutional Infrastructure for Industrial Development",
UNIDO/ICIS 36, 26 July 1977

be it the chief executive or members of the board. In the case of departmental undertaking, this is automatic. In case of wholly owned statutory corporation or limited company, this is done by the controlling Ministry with the necessary political consent. Same is the case with the mixed enterprises where only majority (minority) member of the board are appointed. Appointment of a chief executive of a unit under a holding company/corporation may not always need the consent of the administrative ministry unless it is so provided, particularly in the case of politically sensitive or strategically important unit. Merely the power to appoint chief executive does not provide the true control over him, it is the power to remove or renew his term of appointment that provides the true leverage for the controlling authority. Further, through this process government may put ex-officio civil service directors on a board, send some one on secondment, with attendant problems of bureaucratic legacy and loyalty and thus influence the working of public enterprises. Almost all the countries that have been surveyed - India, Pakistan, Indonesia, Malaysia, Zambia, Kenya, Egypt, Mexico etc. there was no exception to this rule; the apparent exception are provided by the self-managed enterprises of the Yugoslav variety.

The most critical area of control is Finance. It involves approval of budget of the enterprise, approval of investment proposals, audit of the financial operations, control over borrowing from the banks or foreign sources, and control over distribution of surplus. In the case of a departmental undertaking with an integrated budget and controlled operation, such an array of control goes without saying. In the case of statutory corporations some of these controls are instituted through provisions of the statute and some are imposed through directives. In the case of public limited company, a similar approach if followed and then much of the control is exercised indirectly through nominated ex-officio directors.

Approval of the budget is the function of the top management, but in some countries, statutes specifically requires formal approval of the Ministry of Finance.^{66/} But this power seem to have been

^{66/} Government of Bangladesh : Presidential Order No.27

used as an exception only in cases of continuously losing concerns. Not so much the revenue budget, but the capital budget or the investment proposals come under stricter and formal scrutiny at many levels and in all countries primarily because the government puts up the fund and investment pattern need be fully coordinated with the national development plan. Here the control goes beyond the controlling ministry or the Ministry of Finance. Only in case of a government company which could put up money from its own surplus and get the support of an investment bank, the process of scrutiny and approval appear to be simpler on a legal basis. But such cases have not been brought to our notice in any of the countries surveyed.

Audit is a specific tool of scrutiny and control in matters of propriety of financial expenditures judged by the set rules. The departmental undertakings are subject to governmental audit on regular basis while limited companies have to have commercial audit as per law. The statutory corporations are subject to audit, the Government in some countries retain the power of appointment of a commercial auditor, though the normal practice is to vest it in the board. Further, statutory corporations may be subject to random government audit.

Departmental undertakings normally do not borrow from external sources; the limited companies are expected to raise money from the capital market on their own. But the Government, either as a member of the board or with a prerogative of the owner, often conducts a separate scrutiny and its consent becomes necessary for such an action. In case of statutory corporation, there seem to be specific clause making it mandatory to obtain government approval for external borrowing. If borrowing is to be made for running units, they are mostly the units incurring loss, they need government approval, in some cases, guarantee helps the unit in procuring the fund. Foreign borrowing for investment purposes has a separate dimension altogether.

Surplus of departmental undertaking is automatically merged with government revenue. Surplus in the case of a limited company can be retained after payment of taxes or distributed as dividends. Government in some cases retain the prerogative of approval before dividends are declared or surpluses are retained. In case of statutory corporation, this practice is more rampant. In recent years

Government of Bangladesh has adopted a policy of appropriating a part/whole of the surplus of public sector industrial corporations as a budgetary levy, the legal basis of which is questionable.^{67/}

Personnel matters

Not in all countries, but in some, notably Bangladesh there seem to be broad controls in respect of appointment in general, particularly of managerial staff, and their promotion, salary structure, wage level and other compensations as well as incentive payments. This all started with the policy of unified salary structure instituted by the first Government of the country. Thus the organogram of the statutory corporation needs approval of the administrative ministry, establishment, Ministry and at times inter-ministerial committee on staffing pattern. The Government seem to insist on recruitment through the Public Service Commission. The salary and wage structures including perquisites are regulated. These and incentive schemes are scrutinised by the administrative ministry and a Cell in the Ministry of Finance. The promotions are at times held up because of a scrutiny called for by the administrative ministry. The situation is not all that controlled elsewhere: though some of these are tackled through coordinative mechanisms of a bureau(India), a board (Pakistan), or a committee.

It need be mentioned, such controls are inherent in the case of departmental undertakings, generally in case of limited companies and seem to be mostly specific to statutory corporations.

Procurement, Production and Price

There are instances of control over procurement. Departmental undertakings may be required to go through a department of supply. In case of statutory corporation or a limited company, foreign procurement is controlled through allocation of foreign exchange which indicates not only the amount but in many countries with restricted availability of foreign exchange, the source of supply. Further, procurement above a certain value may require vetting by the administrative ministry and in certain sensitive cases that of the Cabinet or its sub-committee.

Production targets, where they are set, may be derived from the national plan targets and instituted by the administrative ministry

^{67/} R.Sobhan and M. Ahmad: Public Enterprise in an Intermediate Regime, BIDS, Dacca and a memo of a Finance Director of an Industrial Corporation to the Ministry of Finance.

with the prodding of the planning machinery in the country.

Pricing of essential commodities or those which have social or economic externalities are regulated by the Ministry of Commerce or a prices commission. This then acts as a control mechanism. This seem to be prevelent in all the countries surveyed.

The control paradigm is presented below in a tabular form:

Table 5: Control over Public Enterprises

Focus of Control	Nature of PE	Agencies involved	Qualifying Remarks
Appointment of Top Management	Departmental Undertakings (DU)	Administrative Ministry	Concurrence of establishment division. Division may be needed. Minister may take interest in a sensitive unit.
	Statutory Corporation (SC)	Statute provides the appointment procedure government, meaning the Minister concerned with staff assistance from Ministry	Cabinet is consulted in case of sensitive units; Some Committees (India) or Commission (Nigeria) may be involved
	Government company (CO)	Memorandum and Articles of Association/Incorporation provides it - normally same as SC	Same as in SC
Revenue Budget	DU	Integrated in Ministerial Budget	Administrative Ministry and Ministry of Finance open to consultation
	SC	Prepared by the corporation and approved by the Board	Government may send general directives; in some countries approval by government is provided for. Consultation is automatic if government subsidy is provided
	CO	Prepared by the company and approved by the Board	Same as SC
Capital Budget	DU	Integrated in the annual development outlay. Administrative Ministry, Finance Ministry and Planning Ministry are always involved	Has to follow the guidelines of national development plan
	SC	Same as in DU	Same as in DU
	CO	Same as in DU, except in cases where no funding from Govt. is asked for, then investment Board, Financial Institution get involved	Same as in DU
Borrowing from (a) Government (b) Financial Institution (c) Sources external to country	DU	(a) Needs approval of the administrative ministry and Ministry of Finance (b) Same as (a), but also of the Institutions involved (c) Same as (a), but may also involve External Resource Division of M/Planning or Ministry of Finance	(a) May require cabinet approval if it involves policy questions, (ie lower rate of interest etc.) (b) may require cabinet approval, if it is a sensitive unit/issue (c) require approval of cabinet or its sub-committee
	SC	Same as DU	Same as DU
	CO	(a) same as DU (b) may only need approval of the Financial Institutions Board (c) depending on the case, may only require approval of the Ministry concerned	(a) Same as DU (b) may not require any other approval (c) may not require any other approval
Distribution of Surplus	DU	No surplus accrues as it is merged with government revenue	
	SC	It is the function of the Board. Statute may provide for required approval by Ministry	Consultation with Ministry of Finance may be needed by procedure
	CO	Function of the Board	Government may provide general guidance

Table 5 (contd.)

Focus of Control	Nature of PE	Agencies involved	Qualifying Remarks
Accounting and Audit	DU	Auditor General	Follows government rules and procedures and subject to government Audit only
	SC	Act provides for Audit by a commercial Auditor, selected by the Board but in some countries need clearance of the Administrative Ministry	Random government Audit is often conducted. may have its own Audit/Accounts manual; may have to be answerable to Public Accounts Committee
	CO	Company law provides for a commercial Audit, selection of Auditor is function of the Board	Does not seem to be subject to any other control
Appointments of staff	DU	Subject to government regulation	
	SC	Normally the Corporation itself, some countries involve Public Service Commission or similar agencies	Government may require approval of organogram, service rules, recruitment procedure; and may also issue directive
	CO	Company itself	Government may provide guidance
Salaries and Wages	DU	Subject to government structure	Special dispensation may be given in specific cases
	SC	(i) In a mixed economy with private sector bias, corporations normally free to devise its own in consultation with Admn. Ministry and/or coordinating body	Ministry of Finance salary scale implementation cell) get involved in case of (ii)
		(ii) In a mixed economy with public sector bias, there is a given structure to which corporations are required to conform	
	CO	Companies are free to fix its own subject to the prevailing structure in private as well as public. There is more pressure to conform to public sector structure in case (ii) above	
Incentives, Bonus	DU	Require government approval ie Administrative Ministry and Ministry of Finance	Budgetary Provision required.
	SC	Primary authority lies with its Board, government may give directives/guidance, may in some countries need approval of the administrative Ministry	
	CO	Company decides on its own unless it is related to other units under the government	
Procurement (a) Local (b) Foreign	DU	In both cases may have to work through a Department of supply; subject to all government rules in this respect	
	SC	(a) Normally decided by its own procedure (b) Foreign purchase involve allocation of funds involving M/Finance, M/Planning, M/Commerce its own administrative ministry or various combinations of them	(a) Government guidance in respect of purchase of locally-made goods and goods manufactured in PE (a) and (b) Purchases above a certain value requires approval of the Ministry of concerned and in some cases that of the Cabinet/Cabinet sub-committee.

Table 5 (contd.)

Focus of Control	Nature of PE	Agencies involved	Qualifying remarks
	CO	(a) Subject to its own procedures only; (b) May need allocation in the same way as SC	There may be government guidance
Production Plan	DU	Administrative Ministry	
	SC	Own Board, at times the administrative ministry and Planning Commission	Need coordination with development plan
	CO	Own Board	Guidance
Pricing	DU	Administrative Ministry	In essential items other Ministries/ Prices Commission
	SC	In non-essential items, own Board	as in DU
	CO	as in SC	as in DU

(iii)

Autonomy

The precept of autonomy is often perceived as antipodal to control. There is some element of truth in it, but at the other extreme of control lies freedom. A public enterprise is public not merely because it manifests public ownership but also because it has an obligation to integrate its operation with public policy goals. In other words, public enterprises have public purposes which are broader than narrow enterprise goals which are equivalent to private enterprise objectives of technical efficiency, good financial return on investment and the like. Because of the public purpose and not primarily for public ownerships, these enterprises are required to have public accountability. The control-oriented school believes that public accountability for attainment of public purpose is ensured through politico-bureaucratic control.

The autonomy school would submit that politico-bureaucratic system is not and cannot be the sole guardian of public purpose. They would further contend that the best way to ensure attainment of the public purpose is to imprint it in the enterprise itself through clear articulation of objective and institution of management for that purpose. The enterprise management and politico-bureaucratic apparatus should form a team relationship to achieve the purpose and not a hierarchie relation to create conflict. The proponents of autonomy would further suggest that the process is helped by the following:

- (a) there should be well defined rules and less of discretion which make control on area of conflict;
- (b) there should be general policy guidelines and not directives the specificity of which destroys initiative, commitment, sense of responsibility and need for accountability;
- (c) there should be periodic specific review based on predetermined parameter for appraisal, rather than general exchange on workings of the enterprise with a view to appreciate/censure the management;
- (d) the purpose of all interaction should be coordination and creation of mutual trust not demonstration of control and reapture of communicative channels; and
- (e) no decision should be taken without appropriate consultation.

The proponents agree that operational autonomy, written in the statute, is only the first safeguard, real autonomy is created by the

superiority of knowledge of the enterprise management, performance as per purpose of the enterprise, and mutual trust as "underlying the denial of enterprise autonomy.....is insufficient trust of supervisory authorities in operating manager....."^{68/} only through guidance for attainment of objectives and constructive review of operational results help create a balance between autonomy and control. Operational autonomy need not debase the opportunity for policy guidance and rules for policy implementation need not reduce the operational autonomy.

The survey of literature and case studies lead to the primary conclusion that the concern has been normally expressed either for statutory autonomy or for desirability of control for policy purposes. Since public enterprises are generally the creation of politico-bureaucratic forces, there seem to have been a more favourable nod towards control by the hierarchical machinery: but in practice informal relationship and enterprise performance led to great variation in the attitudes of controlling authority and thus in the autonomy enjoyed by the enterprises.

Audit and accountability

Accountability may indeed be defined as the responsibility to explain the conduct/performance. This responsibility can be viewed in terms of the fund made available to the enterprise and/or in terms of the task entrusted to it for performance. These enterprises operate on fund-accounting principles and thus accountability largely concerns the flow of revenues and expenditures, primarily expenditures. The propriety of transactions loom large in the accountability concept.^{69/}

The financial transactional accountability seem to have different levels. The first is the managerial level where an appraisal of the accounting, financial and other operations within the enterprise is done by an internal unit of its own. The purpose is to check in sufficient detail the accuracy of records and actual transaction; verify maintenance of safeguards against fraud; examine compliance with manual, orders and instructions in respect of

^{68/} United Nations: Measures for Improving Performance of Public Enterprises in developing countries, 73

^{69/} United Nations:(68)

operation ; note unauthorised variation in transaction and procedures: and recommends corrections and improvements.^{70/} The second is the bureaucratic level where an appraisal of financial transactions in relation to the operation of the enterprise is done by a unit set up by the government primarily to ensure that the enterprise did comply with rules and accounting procedure and further to look beyond the accounting corrections into the appropriate use of funds. The third is the statutory/commercial level where an external qualified accounting firm is required to undertake various scrutiny of financial transactions, assets and liabilities in order to be able to certify that proper books of accounts were maintained and the accounts represent a true and fair view of the affairs of the enterprise. The fourth level is political where the minister, cabinet sub-committee, cabinet or even the parliamentary committee or even the Parliament reviews certified accounts and annual reports approved by the board with the broader appraisal in terms of the expectations and actual performance of the enterprise. This gradation is intended to underline the basic importance of the various documents and reports for accountability.

It can be immediately seen that the departmental undertakings, having no juridical identity, is faced with accountability at the bureaucratic level and only in exceptional cases at the political level. The limited companies in the government sector is primarily subject to appraisal at the statutory level, though large companies have internal managerial appraisal and it is certainly subject to Ministers review. It is the statutory corporation which is subject to all four levels of appraisal.

Internal audit is thus not universal in respect of the public enterprises within a country and also between countries. Moreover, conditions for appropriate internal appraisal is not always present in the units where they are practised.^{71/} Statutory audit is hampered by non-availability of qualified chartered accountants in most of the African countries. In most of the central and South American

^{70/} A statement of the Institute of Internal Auditors of the United States of America, quoted by G.Ronson in "Internal Auditing as an Aid to Management" in V.V. Ramanadan (Ed): Financial Organisation in Public Enterprise, Tripathi, New Delhi 1967.

^{71/} UN: Report of the Seminar on the Role of Public Enterprises in Planning and Plan Implementation, Mauritius, 1969 (E/CN .19/463)

countries public enterprises are subject to audit by the Office of Controller and Auditor General. Some countries have made a compromise of using private firms through the authorisation of the controllers office (India) or the Ministry of Finance (Bangladesh).^{72/}

Enterprises are primarily accountable to the Minister not only for its operation but also for the tasks which are its *raison-d'être*. The political accountability is further drawn into the workings of various parliamentary committees which get reports and information on the workings of public undertakings. The Minister is accountable to the Parliament and lays down budgets, reports and accounts for information and discussion. The political accountability of this kind presumes a mature democracy, political stability and acceptance of the politico-economic institutions and their purposes. In most developing countries these assumptions seem to be premature and thus political accountability has at best worked as means of political control and at worst as a promoter of political patronage. However, if social objectives are to be given appropriate importance, a kind of democratic political guidance and also a review is helpful instrument.

^{72/} UN: Organisation, Management and Supervisor of Public Enterprises in Developing Countries, N.Y. 1974

IV. PUBLIC INDUSTRIAL ENTERPRISE AND RELATIONSHIP WITH GOVERNMENT IN SPECIFIC AREAS

Basic features of the relation of public enterprise system with the politico-bureaucratic system called Government, has been discussed in the earlier section. In this section, we intend to deal with certain areas of special interest:

- (a) Investment in PIE sector
- (b) Pricing of PIE output
- (c) Surplus distribution

Investment in PIE sector

The nexus of Public Enterprise and Government is best brought out by the complexity of the process connected with approval of investment proposal in any of the developing countries. Because of the ready availability of material we shall discuss the cases of India and Bangladesh.

Industries sector in India is divided into three categories:

(a) exclusive state sector for such manufacturing sector as Iron and Steel, Heavy Plant and Machinery, Heavy Electricals, Aircrafts as well as such mining sectors as Coal and Petroleum: (b) joint sector where private sector is not excluded viz. machine, tools, drugs, fertilizers, (c) private sector. But public sector manufacturing and mining goes beyond the list because of taking over of sick industries and other government measures.

Besides the category of industry, procedurally the criteria for locus of approval depends on the investment size. If it is below a level defined by capital investment in an enterprise but not exceeding 10 million IRs in any case, the power to incur capital expenditure lies with the enterprise. Presumably the finance would come from its retained earnings and/or arranged from the market. The Government is not directly involved. If the investment proposed is above 50 million IRs it is appraised, approved, modified or rejected by Public Investment Board (PIB) which has representation of Ministry of Finance, Planning Commission and concerned Ministries. If the investment is somewhere in between it is considered by Expenditure Finance Committee(EFC).

Investment proposal has three distinct phases. The first phase involves formulation of the broad proposals of the project without the feasibility study. In fact, it is a proposal to conduct the feasibility study if it meets the priority considerations of the Government. The administrative ministry takes the initiative of consultation with Plan Finance and Project Appraisal Wing (PFPWA) of the Department of Expenditure in the Ministry of Finance and in case of substantial foreign exchange need, Department of Economic Affairs (DEA) as well. A report is then sent through PFPWA for consideration of IPB.

If IPB approves the investment proposal, then feasibility report is prepared. The administrative ministry with its own appraisal sends it to Financial Adviser (FA) in the Department of Expenditure. He then obtains views of the Project Appraisal Agency of the Planning Commission, Bureau of Public Enterprises (BPE), PFPWA, DEA and any other relevant agency. The FA collates these views and makes his own appraisal in respect of its economic and social benefits, availability of funds or desirability of diversion of funds, advisability of undertaking it in public sector, capacity in relation to demand and supply, financial returns, crucial assumptions and important technical aspects of the project. This collation of view need internal and inter-ministerial meetings. Then the project report is sent to PIB for consideration. It may defer, trim, accept or reject the proposal. If it is accepted in any form, then FA makes financial allocation for the project. At the third stage detailed project report is prepared and the FA will deal with this in consultation with ministries concerned and in the light of the decision of IPB.

Thus, it would be seen that the project approval process is indeed involved, time consuming, bureaucratic and certainly throws up all the complications of many-faced interaction even without the political face added to it. The procedure has indeed gone through changes and has not received good grades from the Committee on Public Undertakings

Compared to India, Bangladesh case may indeed look simple. There are no power with the enterprise or the corporation to undertake any investment on its own. This is primarily because the government policy and public enterprise operation has not allowed any substantial retained earnings. Hence, all proposals for investment has to go to the government. Any investment proposal

is required to be backed up by a feasibility study. Hence a proposal for study may indeed be forwarded to the government for funding. If the proposal meets with plan priority, it is normally sanctioned by a committee chaired by the Member of Planning Commission and attended by relevant chiefs of Divisions in the Planning Commission and representatives of External Resources Division (ERD) of Ministry of Finance, administrative ministry and any other concerned ministry.

The feasibility study has not been standardised. It varies greatly in quality and content. However, it is the responsibility of the enterprise/corporation to prepare or get prepared an acceptable feasibility study. Then the project proposal has to be submitted through administrative ministry as per an approved proforma of the Planning Commission for appraisal to the Planning Commission. Some administrative ministry prefer to have their own review meeting on these proposals. The purpose of the proforma is to get all relevant information in respect of the social, economic, financial, management and technological aspect of the project. Planning Commission abandoned the original proforma in favour of a simpler one. Thus the onus of providing an analysable project has been shifted largely from the sponsoring agency to the relevant division of the Planning Commission.

The project is appraised by the concerned division and comments of relevant ministries/agencies are obtained. Then a meeting chaired by a member of the Planning commission and others as mentioned earlier considers the project. If found acceptable on the basis of social, economic and financial criteria and if the investment is below BDT 20 million, it is approved by this committee. If it is above that amount, it is sent through the Secretary, Ministry of Planning to the National Economic Council (NEC) which is a sub-committee of the Cabinet chaired by the President or in his absence his economic adviser. The investment proposals are generally considered by Executive Committee of NEC (ECNEC) which is chaired by the Minister for Finance. The project, if approved, finds an activated allocation in the development budget of the government. Here, the involvement of regular bureaucracy is no less and that of Planning Commission and the Cabinet is much more pronounced.^{73/}

Pricing of PIE output

Pricing of public enterprise products has indeed attracted attention of policy economists not only because of its intricacy but also

^{73/} Nurul Islam: Development Planning in Bangladesh. C Hurst and Co. London, 1973.

for its implications. Pricing policy affect an enterprise, firstly, in respect of its sales and profit, secondly, its rates of return, future investment and finally autonomy and morale of the man and management. But on a broader plane, it has implications for allocative efficiency, price stability, consumer welfare, income distribution, balance of payments, economic growth and also for balance between the public and private sectors.^{74/} But given such an importance, pricing policy does not seem to have been able to attract adequate attention either of the policy economists or of the policy makers. This is partly accepted by the psychological acceptance of price as a market-given phenomenon rather than a policy parameter given to the market.

In the literature, however, there seem to be a large number of pricing techniques discussed either in general context or in the context of public enterprises in particular. But they can be broadly put together under two broad categories: cost-determined and market-determined. In the market determined category, the notable and known one is the pricing at what market can bear. In the competitive condition, the enterprise has no power to fix a price and gets a price equivalent to marginal cost for survival and operation and under normal condition would be ensured by a normal profit. In a monopoly market, it would have the opportunity to earn monopoly profit, if it so desires. In a monopsony market, it will have to be a price-taker.

In the other case of market determination, the case of available alternative is highlighted. If the alternative source is imports, import-parity pricing to ensure no extra cost has often been suggested as a price policy for products which substitute imports. In this case, the quality becomes an important variable.

In the cost-determined categories, the most celebrated is the case of marginal cost pricing which has been advocated as the basic criterion for maximising output and welfare. But on the question of the identity of marginal-cost, there are disagreements/specificities. For example, in case of existing excess capacity, economists would advocate short-run marginal cost pricing. But in general it is the long-run marginal cost which takes care of recovery of fixed capital cost that is the advocated norm. There are even controversies as to how the costing to be done - on the historical basis or on projected replacement basis: a question which becomes important under conditions of an inflationary/recessionary economy.

^{74/} UN: Measures for improving performances of public enterprises in developing countries, NY, 1973.

A variant of cost-based pricing is the average cost or full cost pricing; and average changes with the output. Thus average unit cost at a normal level of production has become the prescription as this would allow recovery of full cost. However normal level for a new enterprise and enterprises operating under conditions of uncertainty poses a critical problem. Some would then modify it to mean normal competitive level in which case it approximates the marginal cost.

A careful policy maker would like to ensure a rate of return on investment beyond recovery of full cost. In the case of normal competitive price, it is ensured. But as competition has variants, they would advocate a mark-up above average per unit cost. Another variant is cost plus pricing where the base is calculated on actual cost incurred not on the basis of an assumed normal capacity utilisation. The mark-up is needed for an expected rate of return on investment.

As capacity has been introduced as variable, it suggests some variants. Above we have mentioned normal capacity utilisation and actual capacity utilisation. The other variants are attainable capacity utilisation and break-even level of capacity utilisation.

To sum up, on the basis of cost and capacity variable, it is possible to get eight different pricing policy:

<u>Cost</u>	<u>Capacity</u>	<u>Return on Investment</u>
Marginal	break-even actual normal	below-normal
average	attainable	above-normal

This gets multiplied when we introduce variants of return on investment. Because of this complication and in the absence of a machinery to monitor market and cost, the general advocacy has been in favour of prices that market can bear or long run marginal-cost pricing. The exceptions were thought to be welfare goods which may merit subsidy and call for price control.

Examination of Pricing policy in respect of PSIE in India^{75/}
reveals the following:

- (a) Prices of certain commodities are market determined
e.g. machine tools, bakery products
- (b) Prices of certain commodities are fixed by agreements
e.g. mineral products
- (c) Prices of certain products are negotiated: e.g. products
sold to central Government or State enterprises, like
cables, heavy engineering and electrical equipments
- (d) Monopolistic pricing on the basis of dual pricing in
differentiated market e.g. steel products
- (e) Controlled prices for essential goods etc. e.g. drugs,
fertiliser etc.

Inter-ministerial pricing committee and Bureau of Public Enterprises often arbitrate in matters of dispute over pricing in the category(e) above. However, the basis for pricing is not clear and it is variable from type of arrangement and product under consideration. However, where it is not determined by market (a, b, d) cost plus return seem to provide the primary consideration.

A study of the Indonesian^{76/} scenario led to the conclusion that there is no set pricing policy. Cost-plus pricing seem to be the method most widely adopted by PSIE which seem to enjoy advantages of monopolistic/oligopolistic market. Products like fertilizers are subject to price control by the Government. Except for essential goods and construction goods, all the public enterprise products in Nepal are priced on market consideration (ie. import price from India) including jute goods whose price is determined by prevailing export price at Calcutta.^{77/} In Sri Lanka public enterprises do not have any pricing policy as such but they are subject to price controls in respect of certain products in which case price fixation is done on cost plus basis.^{78/}

^{75/} G.C. Baveja: Public Enterprise Policy on Investment, Pricing and Returns in India, APDAC Sept 1976

^{76/} Astar Siregar: Public Enterprise Policy on investment, Pricing and Returns in Indonesia, APDAC, Sept, 1976

^{77/} S.B. Kasaju : Public Enterprise Policy on Investment, Pricing and Returns in Nepal, APDAC, Sept. 1976

^{78/} A.S. Jayawardena: Public Enterprise Policy on Investment, Pricing and Returns in Sri Lanka, APDAC Sept. 1976

Bangladesh attempted to formulate a policy on pricing for public enterprises under the initiative of the First Planning Commission.^{79/} It advocated cost plus pricing but set a limit of 10% above cost. Any pricing above that limit would be subject to review by a prices commission which could also hear complaints about the basis of costing. One of the pre-requisites suggested was standard costing. The Planning Commission did not advocate market prices as under conditions of scarcity that should not be regarded as a fair guide. The Government is yet to act on this policy paper. In general, a number of commodities for variety of reasons, come under price control wherein prices are fixed through consultation at the ministerial level or cabinet level and promulgated generally by the Ministry of Commerce or the administrative ministry. The machinery to enforce such administered prices is very weak and thus merely acts as an added distortion in the market.

Surplus generation and disposal

Public enterprises, in general, have been accused of not generating surplus for the Treasury. On the face of it, it has great validity. But on second thought, one may indeed raise the question does the government really want surplus from the public enterprises.

In the first place, the capacity to generate surplus is conditioned by the nature of the industry which includes the nature of the market in which it sells its product. By definition, in most mixed economies public enterprises have been asked to operate in areas which are less appealing to private sectors or in areas where private operation results in a price-output situation which is undesirable from the society's point of view. In both cases, public enterprises cannot be expected to provide a private sector equivalent surplus, or in certain cases any surplus at all.

In the second place, surplus being equivalent to total revenue (no) less total cost (ac.q) can be subject to governmental policies which

^{79/} Planning Commission: Government of Bangladesh: First Five Year Plan 1973-78

do not help accrual of surplus. Government may follow a price control policy which means the enterprise is denied the surplus that could have accrued if it were allowed to follow pricing by market. Government may follow a conscious or unconscious quantity restriction policy. This may be caused by non availability of inputs up to full requirement say because of import restrictions. This may be caused by creating excess capacity and forcing market sharing for survival through negotiated supply patterns. A variant of this is pursued in the name of competition, dispersal of industries or even encouraging new entrepreneurs in the private sector.

Government actions may affect the cost adversely in various ways. One such way is inappropriate tariff/tax structure making domestic cost higher than that of import. Another way to keep average cost high is artificial restriction of total output through measures mentioned above. Yet another way to increase the total input cost: the most familiar form is overmanning of enterprises, or higher than market wage for employees through politico-bureaucratic intervention or imposition of an inventory of input because foreign aid is available or of output because another enterprise failed to take delivery etc.

We are still on potential surplus. In this context it may be useful to mention tax. A tax on input is part of cost and how it can erode surplus has been mentioned above. A tax on output is in fact taking away part of surplus in another name. Any differential tax (or subsidy) would have an effect on the surplus of the enterprise. It is in this context interesting to read the report of the ESCAP consultants' group on Development Strategies For the 1980s in South Asia.^{80/} It reads as follows:

"The absolute surplus generated by these enterprises, defined in the broader sense to include retained earnings and contributions to the budget by way of taxes and dividends, has grown into a sizable magnitude. However, the major part of it is in the form of taxes which form part of the government revenue pool. Since the bulk of the latter is spent on current operations rather than investment, and that too on non-development activities it follows that much of the surplus is in fact used for current consumption."

Thus, it would be seen that it was a politico-administrative choice

^{80/} ESCAP: Consultants' Report on Development Strategies for the 1980s in South Asia (memo). The author along with Professors, A. Vaidyanathan, Amit Bhaduri, Mrinal Datt Chowdhury and Rehman Sobhan were members of that expert group.

regarding the form in which surplus was taken away and the form in which it is used. Public Enterprise was indeed in the recipient and with no influence on these decisions.

Finally, the government through price control and patronage function may indeed allow an intermediate group to reap the difference between actual market price and mill-gate price and this difference may indeed be increased through manipulation of actual supply on the market by this group. This becomes critical in the absence of a well regulated distributive system. This is indeed the case with many essential commodities produced in the public sector. The price control is often instituted in the name of the disadvantaged but it does leave the question Public Enterprise by whom because of the way government prefers to handle it.^{81/}

^{81/} R. Sobhan and M. Ahmad: Public Enterprise in an intermediate Regime BIDS, Dacca, 1980 and Leroy P Jones: Public Enterprise for whom, IDRC Conference Paper, Ottawa, 1979

Pertamina

PERTAMINA, not only a "success" story in public sector bereft of large number of commercially successful unit but also an important economic and political entity in its capacity to account for major portion of foreign exchange earning and of budgetary revenue, is an enterprise that seem to have reversed the government-enterprise relationship by persuing its own success helped by the spiraling increase in the prices of its own product.

Indonesian Constitution of 1945 provides that the "means of production which are important to the State and which affect the life of a majority or a substantial number of people shall be controlled by the State", and that "the natural resources found in Indonesias' soil and waters shall be controlled by the government and shall be used for the greatest possible prosperity of the people."

This provided the basis of public enterprises in Indonesia, particularly in the oil and gas sector. The public enterprises were defined as those of which the capital entirely belongs to the riches of the Republic; it could not be divided into shares and the state enterprises were not to be allowed to have subsidiaries.^{82/} A reformation led to distinct categorisation of state enterprises in Perjan (departmental undertakings to work in areas not profitable for commercial ventures), Perum (State corporation) and Persero (State enterprises to be run under company law).^{83/} The basic purpose was to prevent majority of state enterprises from receiving budgetary subventions and to place emphasis on efficiency and profitability as well as centralise control in the Ministry of Finance (previously it was with technical ministry) in an attempt to standardize them.

In the early decades of independence from the Dutch, Indonesia had taken over parts of petroleum industry. These were run through corporate form of organisation, presumably for commercial efficiency. Under the Law 19/1960, three separate corporate entities were created: PN Permigan (for small oil fields in Java), PN Permina (for exporting oil) and PN Pertamina (for domestic distribution and

^{82/} Law no. 19/1960

^{83/} Law no. 9/1969

supply to Army). However, PN Permigan was disbanded in the wake of political turbulence in 1965-66. The other two were merged into a single entity PN PERTAMINA.^{34/} But finally in 1971 it was put under a distinct legal status under a new law.^{35/}

The unit remained a public corporation of which capital belonged to the people (ie State) and it had no shares. The purpose of the new law was to enhance government control over revenue of the unit by requiring fixed percentage of revenue generated to be remitted to government automatically, to encourage prudent utilisation of available fund, to remove financial dependence of certain functional area (e.g. military) on State Oil enterprises, to enable it establish subsidiaries and to distribute its net profit in a specified manner.

Under the previous law, Minister of Mines had virtually exclusive jurisdiction over oil companies. The companies had functional board with a president director and several executive directors, all of whom were appointed by the President of Indonesia for a maximum of five years. The executive directors were responsible to president-director who in turn was responsible to the Minister of Mines. This management board was responsible for enunciating enterprise policy, its administration and management of enterprise assets. This board prepared a budget for approval of the Minister and submitted periodic reports including annual statement of accounts.

The new law substituted the Minister by a State Board of Directors consisting of the Ministers of Mines (Chairman) of Finance (vice-chairman) and of National Planning. This Board was responsible to the President of Indonesia, and had powers to determine general policy for Pertamina; supervise its management; approve corporate budget (including proposals for loan exceeding certain amount, founding of subsidiaries, its field of activities, sales and purchase agreements etc.), discharge, if necessary, a member of the management board; examine annual statement of accounts; determine depreciation schedules and reserved, fix emoluments for members of the management board and issue disciplinary rules. The State Board was to meet once a month and decide matters unanimously and in case of disagreement, President

^{84/} Law no. 27/1968

^{85/} Law no 8/1971

of Indonesia was to give decision.

In spite of this provision, it seems Pertamina became a delinquent and showed disrespect of government policies, partly because of its success in generating profit and partly on the grounds that the managers were more knowledgeable than the government counterparts.^{87/} Because of its contribution to government revenue, it became an enterprise that arrogates autonomy and promotes disrespect of governmental authority. This raises the very basic question should a public enterprise, established on political and economic premise, be allowed to articulate its performance standards on distinctly commercial consideration as in that case "successful" public enterprises can predicate public decision making on a criterion that was subsidiary to its own creation. The need for control of public enterprises is as much for its efficiency as it is to ensure that public-resource is being used in accordance with the evolving expectation of the citizenry. The relevant question is how this case be ensured where democratic traditions has not gained ground?

Not limited by resources, with moderate technical efficiency but financial success and growth largely caused by international forces, Pertamina has created a crisis of control and accountability, a case unheard of in the arena of public enterprises in the developing countries despite the law.

Bangladesh Steel and Engineering Corporation:

Bangladesh emerged as an independent national entity in December 1971 and decided on a course of policy that would heavily restrict private ownership of large and medium scale modern manufacturing units. In pursuance of this policy, Government took over all left-behind enterprises by the Pakistani owners in all sectors including those in Steel, Engineering and Shipbuilding. Initially in March, 1972 two separate corporations were set up one for Engineering and Shipbuilding and other for Steel. But in November, 1975 these two were merged to form one corporation.

^{87/} Robert Fabricant: Pertamina: A National Oil Company in Developing Country, in international Legal Center: Law and Public Enterprise in Asia, Praeger. 1976

The corporation was set up under a Presidential order with a minimal authorised and paid up capital of BDT 0.5 million which was given as a grant to the corporation. The corporation has a Board of Directors with Chairman and Executive Directors. They are all appointed by the Government on the recommendation of the Ministry for Industries, at times scrutiny by the secretaries committee and final approval of the President. They are all appointed for an undefined period and normally equated with members of bureaucracy, except for status and security of job. In this corporation, all appointments so far has been from amongst recognised professional people. The Board is responsible to the Ministry of Industries. The attempt to make them responsible directly to the Minister failed after the changeover in the government in 1975. The Board is responsible to interpret government policy in their own sector and in that sense formulate the corporate policy, particularly production and financial targets. The organisational structure allows for general departmentation as well as staff and like divisions.

The function of the Corporation is perceived as follows:

- (a) prepare corporate plan (including production plan, budgets etc.) and integrate it with the national plan;
- (b) implement all governmental policies relevant to the sector; and ensure fulfilment of legal and statutory obligation;
- (c) monitor, control and coordinate activities of enterprises under its jurisdiction in the light of (a) and (b);
- (d) prepare reports, as required, for perusal by appropriate governmental authorities; and
- (e) maintain effective liaison with the government for fulfilment of its objectives.

In carrying out these activities, the corporation exercises the following control over its enterprises:

- (a) appoint of chief executives and senior personnel of the enterprises generally from amongst its pool of trained personnel;

(b) fixation of production sales and profit targets on consideration of past performance, attainable capacity, demand etc.

(c) approval of annual cash and revenue budget and period review of its compliance;

(d) approval of all major procurements, particularly from abroad which is handled centrally by the corporation:

(e) approval of pricing of output prices,

(f) approval of new employment: and

(g) internal audit.

There is a continuous flow of reports of finance, sales, output, inventory, and the like through management information system. The chief executive of the enterprise keeps general liaison with the corporation, but the departmental heads also keep frequent link with their respective departments. The enterprise are made to institute control over production, wastage, quality inventory, borrowing from banks, cost and sales. There are periodic review on these matters at the corporation and higher level including presidential review. The minister holds a monthly review meeting.

The control on corporation is directly exercised by the Ministry of Industries. However directives are received from Ministry of Planning on capital expenditure, from Ministry of Finance on foreign exchange allocation and revenue payables, from Ministry of Commerce on prices, Ministry of Labour on wages, Ministry of Establishment on personnel recruitment. The capital outlay proposals need sanction of the government which has to be processed through the administrative ministry. Further, the corporation is subject to government audit and hearing by Parliamentary Committee.

The organisational form is corporate, controls are expansive and systematic. Such expanded control in a capitalist economy is advocated to ensure that public enterprises do not overstep their restrictive role of making up for the market failure and in a socialist economy it is necessary as they constitute the fulcrum of the national economy. In a mixed economy of a developing

country it is argued on the basis that the public industrial enterprises are the principal means of implementing national plans. In whatever way one works, there seem to be a case for control and Bangladesh government seem to have instituted it firmly. Hence with generally high technical efficiency within the limited resource availability and moderate financial success, the BSEC could not avoid or moderate rigid bureaucratic control over its own operations.^{38/}

Does the legal provisions and organisational form matter ?

^{38/} R. Sobhan and M. Ahmad : Public Enterprise in an Intermediate Regime, BIDS, Dacca 1980 and A. Haque: System of Internal and External Control of Public Sector Industrial Enterprises in Bangladesh, Paper presented at Inter-Regional Workshop at ICPE, Ljubljana, July 1979

VI.

CONCLUDING OBSERVATIONS

The three organisation models, law or practice that creates them and generalised view of their operations provide us with strait-jacket divisions. This is helpful for conceptualisation and possibly administration. On the other hand public enterprises demonstrate a kind of organisational development over the years of operation which are not catered to or cared for in these legal provisions.^{39/} This has indeed created conceptual difficulties as the relationship between the government and the enterprise can be and in some cases really remains in a state of evolution over time. Further, control-autonomy-accountability relation which is at the core of government-enterprise nexus is conditioned by political philosophy and state of economic development of the country. The developing countries, categorised as mixed economy, have also shown discrete changes in this respect. Thus to understand government-enterprise nexus, we have to deal with three sets of variables, viz. nature of politico-economic development attained and/or pursued, legal-cum-administrative characteristics of types of enterprises and dynamics of the evolution of the public enterprises. To the best of my knowledge, no such study has so far been done and it calls for sustained research effort dealing with individual cases of public enterprises dispersed over various countries and various regimes. We shall attempt a rudimentary analysis for incorporation of these variables.

Before we deal with stages of development of public enterprises, it is helpful to remember that in the case of private enterprise, the management objective is purely economic in nature (viz. profit) and the entrepreneur or the management starts the operation with reasonable internalisation of the objective.^{90/} The job of the management is to adjust incrementally to the environment including socio-political process. When he finds adjustment to be expensive,

^{8/} Srinivas Murthy: Strategic Management of Public Enterprise: A Framework of Analysis, a paper presented at PAPEG Conference on Public Enterprises in Mixed Economy LDCs, Boston, March, 1980

^{90/} Recent discussion of influence as a motive for owners and growth as a motive for managers are largely correlated with the economic success of the unit. This makes difference only at the point of optimisation.

he abandons the unit. The case of public enterprise is different. For it, the sequence has been reversed. Public enterprises are created to achieve certain socio-political objective. Depending on the type of enterprise and the type of regime, these objectives indeed dictate the primary operational norms for the public enterprise. The public enterprises are incrementally required to integrate the economizing and optimizing process in its operation. This is a fundamental distinction which is often lost in the application of neo-classical economics to the operation of public enterprises. Neo-classical economics presupposes rationality of market regime, equilibrium of transactional operations, and harmony of the components of the society. These may indeed be correct assumptions in a capitalist system for seeking market equilibrium, even in cases of developing mixed economies which puts value in the imperfect market, but such assumptions in other cases would be totally inappropriate.^{91/}

Now the public enterprises are given a set of socio-political objectives for its economic operation by an external body i.e. (government, party, community etc.) These objectives have been determined by the objective reality of the interaction of the social forces and manifested through the political process. Except when such enterprises are run by a committed cadre, the management needs to internalise the objectives for their operation. Even a committed cadre, would need to learn in many cases the techniques of operating an enterprise. In internalising the objectives and operationalising the enterprise, the management faces reality in terms of costs and consequences. The sponsors can now react with possibility and better understanding of the reality of operation, cost of realising the objective, and the perceived versus realisable benefit. This reaction crucially determines the evolution of the public enterprise. If the sponsors evaluate the facts on the strength of their belief, the public enterprises would not be affected adversely even if costs are high so long the socio-political reality permits it. If the sponsors have less commitment to the objective and is sensitive to the results, adverse operational

^{91/} Muzaffer Ahmad: Political Economy of Public Enterprise, a paper presented at BAPEG conference on Public Enterprises in Mixed Economy LDCs, Boston, March, 1980

evaluation may indeed lead to abandonment of the enterprise. This possibility is most marked with mixed economy LDCs under a capitalist system of development. At times, external aid agencies from developed country may promote such an approach e.g. post-Soekarno Indonesia, post-Mujib Bangladesh. Another point that needs to be made is that how long an enterprise would remain in this stage of evolution depends on the type of enterprise, type of polity and stage of economic development. Empirical studies show that it varies widely.^{92/}

However, at this early stage of development when the public enterprise make attempts to internalise the socio-political objectives, operationalise the unit, attempt economising resource use and optimising cost-benefit relation, a helpful necessity is the continued support of the government - both moral and material (for deficient enterprises). At this stage autonomy is a subsidiary issue because without ones own internal strength autonomy would lead nowhere and also because in the final analysis, autonomy is a function of the perception of the external supervisory group of the nature of its effect to achieve the goals for which it was set up. But in one case autonomy may help; that is the case of divided polity and bureaucracy when shelter from bureaucratic subversion of public enterprises may indeed become necessary.^{93/}

Assuming, that there is no schim in the politico-bureaucratic set up and recognising the necessity of "protection, promotion and support" in early stage of public enterprise, the most relevant form may indeed be departmental enterprise if we overlook its growth needs in future. The alternative is a subsidiary of an established holding corporation which then provides the support. At this stage of development, it is not possible to pay undue attention to accomodation of private values ie financial profit without relating them to socio-political objectives.

The transition from the first to the second stage is conditioned by successful adaptation of socio-political objectives into the economies of operation making the enterprise viable, not necessarily

^{92/} K.R.S. Murthy: (89)

^{93/} R. Sobhan and M. Ahmad: (88)

highly profitable. In that circumstances, it no longer needs protection and as its sponsors have gained confidence in its ability to survive in a desired manner: there is no reason to deny it operational autonomy. The demarcation line between politics and public enterprise is difficult to define and impossible to legislate; but it can be said with reasonable certainty that unless the polity that matter is satisfied that the public enterprise has introduced desired economic results in obtaining socio-political objectives, the political control is not withdrawn. This is evident in the operation of public enterprises in the infrastructural sector or even in the service sector. Further, there is possibility of an enterprise retrogressing from this stage into the earlier stage because of the impact of external variable (e.g. technological development).

At this stage, we may consider the public enterprise to have attained state of maturity which cannot be defined by number of years of operation and the stability of supportive dependence of politico-bureaucratic system. When a child reaches maturity only then the external relations need be defined and a retarded child never gets it. Similarly, at this stage, it becomes necessary to define the control relationships with all external groups functionally and not necessarily through law. Thus in theory, it could be possible to develop a mature relationship with a departmental enterprise at this stage, but the normal recommended form would be the statutory corporation or a government company. There has not been many known graduation from departmental enterprise form to the forms mentioned above; though many statutory corporation or government company in effect work as a departmental undertaking. The characteristics of this stage is maturity of the enterprise, and the confidence of external control group in its ability. Thus at this stage, politico-bureaucracy retain control but it is exercised with lot of deference. At this point, the effective control of public enterprise is often helped by a defined strategy for public enterprises formulated by social forces in control of politico-bureaucratic system.

At the third stage, there is continued happiness, given the

continuity of the politico-economic system. There is consensus on the role of a public enterprise which is found achievable on the basis of acceptable economic criterion, there is de facto existence of the public enterprises separate from the government, and there is agreement on performance, evaluation and control. However, how much a public enterprise or the public enterprise system can really be separated from governmental planning and its control depends on its strategic importance to the economy and nature of institutionalisation of public enterprise as it may (France) or may not (U.K.) allow any differentiation of government planning from that of public enterprise. Ideally, with separation from government agreed upon, the public enterprises are most suited for the public limited company form.

In our deliberation of the stages of development we have also dealt with the three legal forms of public enterprises, though we have portrayed them as functional (de facto) type. Under the circumstances we end up with a following possible puzzle concerning law, organisational type and socio-political development.

Politico-Economic System	Form of Enterprise	←————→		
		Stage I	Stage II	Stage III
Capitalistic	1			
	2			
	3			
Pro-capitalist Mixed Economy	1			
	2			
	3			
Pro-socialist	1			
	2			
	3			
Socialistic	1			
	2			
	3			

The purpose of this puzzle is to conclude that de juro organisational forms are not important to pursue and de facto organisational forms

need be understood in its dynamic context. We are far away from any consistent set of propositions in this respect. But for an appropriate analysis, we need to perceive the operation of the enterprise in the larger context of the socio-political process than within the limits of the law itself.



