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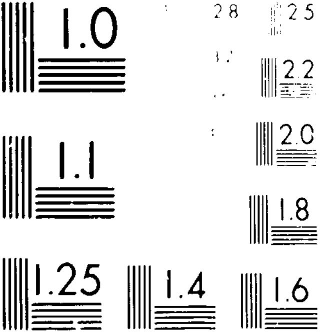

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THE ROLE OF THE PUBLIC INDUSTRIAL ENTERPRISE IN SRI LANKA*

Regional and Country Studies Branch
Division for Industrial Studies

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PREFACE

This study was undertaken within the framework of the country studies on the role of the public sector in the industrialization of developing countries conducted by the Regional and Country Studies Branch of the Division for Industrial Studies, UNIDO. Through this research programme, an attempt has been made to analyze the role and function of the public industrial sector in developing countries and to examine the crucial issues surrounding their operations.

The country studies have primarily focussed upon the role of public industrial enterprises as instrument of industrial policy and strategy; their contribution to growth and development of the industrial sector and national economy; their operational performance as well as their organizational framework and institutional infrastructure. By examining the role of public industrial enterprises and identifying the major constraints facing these enterprises in various developing countries the uncertainties surrounding their operational performance may be reduced and a basis laid for improving their efficiency and enhancing their contribution to industrial growth and national development.

In this country study the role and function of the public industrial sector in Sri Lanka is analyzed. The study was carried out by Mr. M.R. Prelis as UNIDO consultant on the basis of a questionnaire survey.

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1.1. Rationale for Establishment and Growth of the Public Sector

The economy of Sri Lanka has been basically dependent on agriculture. The bulk of the people live in rural areas and derive their livelihood from agriculture. Under British rule large tea, rubber and coconut plantations were established largely with foreign investment.

Public corporations, mainly industrial enterprises, were set up as a result of Government endeavour to promote industrialization. The colonial government built the necessary economic infrastructure, roads, railways, hospitals and an educational system for the needs of the economy. Capital was largely foreign owned and there was little interest in establishing industries which could compete with exports from metropolitan areas.

In 1923 a commission on industries was appointed. It recommended the establishment of a Central Board of Commerce and Industry. After 1931 with attainment of internal self government, a Ministry of Commerce and Industry was set up. Initially a number of plants producing plywood, steel rolling, paper, acetic acid, glass etc. were established. They were departmental organizations depending on financial resources from the Treasury and subject to Treasury control. These factories later began to incur losses in the post-war period. A commission on Government undertakings recommended that they be closed down. At the same time a Committee of the State Council (1946) reporting on industrial policy recommended that the Government should set up a number of basic industries which should be reserved for the public sector. It also recommended the establishment of industries such as cement, textile, vegetable oil, caustic soda, steel, paper and fertilizer in the Public Sector. After independence in 1948 the Ministry of Industries established capital intensive industries such as cement, vegetable oils, caustic soda and paper. In 1953 a Commission on State Commercial Activity reported that government departments were not suitable institutions fo conducting commercial or industrial activity and recommended the setting up of public corporations for this purpose. In 1955 the Corporations Act made provisions for the take over and management of the manufacturing industries constructed by Government with provision to convert them to limited liability companies. Independent enterprises in the cement, leather products, plywoods and ceramics industries were created under this legislation. In 1956 a socialist party came to power. It enacted a State Industrial Corporation Act to replace the 1954 legislation and also removed the provision for the ultimate transfer of state enterprise to private sector.

In the last two decades the number of public industrial enterprises have grown rapidly. The main rationale for setting up these enterprises have been spelled out as follows: (1) to increase the rate of growth in the production of fields critical to national development (2) to function as an instrument for the evolution and implementation of appropriate policies and procedures (3) to generate resources for achieving the goals of national economic development (4) to generate greater and better employment opportunities and training in new industrial and economic skills.

Public enterprises have been established to explore economic opportunities that are not adequately availed of by the private sector, and to take advantage of economies of scale and restrict monopolistic practices. Lately government interventions in the public sector have also been occasioned by the need to guarantee foreign loans advanced to Sri Lankan industry.

Today there is widespread official criticism of the rapid development of the public sector during the 1970s. The Minister of Finance in the budget speech of 1979 argued that "public industry in Sri Lanka in the past had developed on the basis of import substitution behind high tariff walls ... The present government will confine the public manufacturing sector to industries already allocated to it but will concentrate on output maximization from existing capacity".

1.2 The Role of the Public Sector

Sri Lanka is perhaps unique among developing countries having changed governments at every general election since 1956. Furthermore the policies of the parties forming governments have been radically different. Consequently it is not surprising that the role of the public sector too undergoes radical changes with changes in government. Such changes became even more marked during the late 1970s. With the coming to power of the Sri Lanka Freedom Party led government in 1970 the public sector was clearly assigned the dominant role not only in the hitherto allocated sector of large scale industrial enterprises but also in the trading, plantation and the agricultural sectors. With the completion of land reforms and nationalisation of the large tea and rubber estates in the mid seventies every important facet of the economy came to be dominated by the public sector. The private sector was assigned a diminishing role. However, a notable exception was the tourist industry which came to be dominated by the private sector. The controversial Business Acquisition Act was passed during this period under which the government could take over any private sector business. However, private enterprises managed to survive in the small and medium scale sector and actually expanded under the severe protective import policies of the government.

The United National Party government which came to power in 1977 with an unprecedented majority had as its policy the rapid expansion of the private sector. It argued for a drastic curtailment of the Public Sector allowing freer competition and freer trade. It was expected that rapid privatization of the public sector would take place

However since the change of government one cannot conclude that the role of the public sector has diminished drastically. The major areas of the plantation sector are still with public sector. The public sector import trading organisations have actually expanded gradually. Several industrial coroporations too have expanded both in output as well as capital investment. The textile industry which was dominated by the public sector however was handed over to private enterprise but this involves the granting of a management contract and not privatization. The public passenger transport business however which was hitherto exclusively run by the public sector corporation was allowed to be penetrated by the private sector and there is genuine competition in this area.

Important changes have, however, been instituted with regard to public enterprise. As a first step the government has decided on appointing full time Chairmen to these institutions for speedy decision making and effective control. Further it has also been decided to obtain management talent from the private sector to assist in the running of these institutions.

In the past rigorous import controls, foreign exchange allocations and high tariffs led to an inward looking industrial sector. The investment climate has now changed with certain economic reforms introduced in 1977 and a much improved investment climate has come about and this has helped to further rationalise investment activity. Several expansionary programmes were supported by foreign collaborations by way of providing capital, technology and management skills to the Sri Lankan public enterprise sector.

In the past the public industrial enterprises enjoyed a monopoly position. But due to recent reforms this position has changed. The private sector is today permitted to compete freely with the public sector. The public sector also faces greater competition from imports. It has also been decided that public industrial enterprises running on recurrent losses are to be round up. In future capital transfer to public industrial enterprises will occur only under exceptional circumstances.

To bring about more harmonious labour management relations worker directors were appointed in most enterprises. This policy may have contributed towards the peaceful labour relations prevalent in the public industrial sector at present.

The inadequacy of skilled operatives and engineering personnel has been a major problem faced by the public industrial sector. Training of these skills through the National Apprentice Scheme utilising the pooled resources within the public sector has been a major programme of the government. In most collaboration agreements between public industries with foreign participants heavy emphasis has been laid on the training aspect with provision for a large number of local personnel to be trained in the parent companies abroad.

The present government does not provide strict demarcation of industries according to the different sectors. The highly capital intensive basic industries, however, come within the public industrial sector. Some industries are populated by both public enterprises and private domestic enterprises. Public enterprises are concentrated in the following branches:

(a) Steel industry

(b) Sugar Industry (on a small scale by the private sector also)

(c) Salt

(d) Paper Manufacture

(e) Manufacture of Chemicals

(f) Manufacture of Tyres (car, bus, lorry, tractor)

(g) Manufacture of Ceramic Products

(h) Graphite and Mineral Sands

(i) Petroleum Products

(j) Cement Manufacture

(k) Plywoods Manufacture

(l) Leather and Leather Products

Industrial co-operatives exist in the following industries:

(a) Manufacture of rubber articles such as mattresses

(b) Making of coir products

(c) Small scale textile weaving units

(d) Handicrafts

The private domestic firms dominate in the following areas:

(a) Manufacture of cigarettes

(b) Manufacture of soap

(c) Manufacture of rubber products, including tyre rebuilding, bicycle tyre and tube manufacture but excluding car and truck tyres

(d) Manufacture of batteries and torch cells

(e) Manufacture of electrical goods

(f) Manufacture of electrical cables

(g) Manufacture of pharmaceutical products

(h) Glass manufacture

(i) Plastic products

(j) Vehicle body construction

(k) Food and Beverages

Foreign industrial enterprises have concentrated in the Investment Promotion Zone under the Greater Colombo Economic Commission. Main investment have been in the following fields:

(a) Garments

(b) Cotton Gloves

(c) Fishing gear and accessories

(d) Gem cutting etc.

Finally three joint ventures have been established to produce: Porcelain tableware, Porcelain figures and Wall Tile manufacture. These joint ventures are mainly export-oriented.

Public industrial enterprises control the highly capital intensive major basic industries such as steel, petroleum, tyre and flour milling. Due to the high investment requirements and long gestation periods these industries would not attract the private entrepreneurs. These public enterprises have paid attention to the national objectives of maximizing the use of natural resources and employment opportunities by selecting appropriate manufacturing processes and technologies. In the tyre industry emphasis was given to the use of locally grown natural rubber in preference to synthetic rubber with certain superior qualities. Most Corporations have adopted labour intensive technology in preference to capital intensive sophisticated processes. Location of industries have been based on considerations of regional development more than on purely techno-economic considerations and frequently the best suited locations have been left out in preference to slightly inferior locations in order to satisfy the requirements of regional development. These institutions have functioned as the ideal employer in determining wage levels, fringe benefits and worker amenities, often sacrificing profits.

Public enterprises have faced many obstacles in pursuing their objectives. These institutions have frequently to endure political pressure in matters of appointment and recruitment. Selection to key managerial positions are made for considerations not directly related to efficiency. Due to Governmental interference some institutions have to carry excess staff thereby reducing labour productivity and lowering morale. Rigorous Governmental and Treasury control have reduced firm autonomy. Uniform wage structures applicable to these enterprises prevent them from attracting the best talent generally available within the private sector. Training of technical and managerial skills is also slow and there are critical shortages of qualified and efficient managers.

Radical economic reforms brought about in the last few years require public industrial enterprises to run as viable self relying institutions without any state assistance. They are also required to face competition from the other sectors within the country as well as from imports. Some of the key problems of these institutions are currently receiving the attention of high level government officials who are studying their performance critically.

2 Impact of the Public Industrial Sector on the Economy

2.1 Aggregate Trends

Public enterprises have grown rapidly in recent years. Table 1 below indicates the rapid growth in investment achieved by the public industrial enterprises.

TABLE 1

INVESTMENT GROWTH OF THE PUBLIC ENTERPRISE SET

Period	No. of Enterprises	Investment Rs.
1975	25	2833090
1976	26	2972663
1977	26	3337532
1978	26	4241707

Source: Central Bank

The growth of investment has been accompanied by improvements in the rate of return. The rate of return on capital employed has increased significantly (Table 2). This in part at least reflects the effectiveness of the 1977 reforms about the role and operation of public enterprise in

TABLE 2

PROFITABILITY OF PUBLIC ENTERPRISE

Period	Profitability in Rs.000	Return on Capital Employed
1975	69537	2.5%
1976	93135	3.1%
1977	67689	2.0%
1978	288640	7.7%
1979	308982	7.2%

Source: Central Bank

TABLE 3

PUBLIC INDUSTRIAL ENTERPRISES: EMPLOYMENT

Year	Employment
1976	47551
1977	56028
1978	58423
1979	70422

Source: Central Bank

Sri Lanka. Capacity utilization has also increased during the last three years.

Due to the rapid increase in investments of Public Industrial enterprises significant emplyment has been generated (Table 3). The employment by the public industrial enterprises has grown at an annual average rate of about 16 per cent during 1976-1979.

Productivity however has not grown rapidly. Government have traditionally considered the public sector a convenient means of promoting employment and the pressure had been to increase the manpower irrespective of real needs.

Public industrial enterprises have generally acted as a model employer and rendered significant services through provision of vital amenities such as medical, housing, banking and allied facilities. In the more difficult geographical locations attempts have also been made to provide residential facilities to worker families through various schemes.

It can thus be seen that the public enterprise sector has grown rapidly in aggregate terms. Investment has grown at a rate of about 12.5 per cent per annum since 1975 and employeent has grown even faster. There has also been a marked improvement in capacity utilisation. This has led to a significant increase in the efficiency and profitability of public enterprise, particularly since 1977. The government's commitment to make the Sri Lankan public enterprise sector commercially viable and able to compete efficiently with the private sector has thus already started to pay dividends.

2.2 Comparative Performance of Public and Private Industrial Enterprises

Both public and private sector industrial enterprises have recorded significant growth in recent years. Until a few years back both these sectors were greatly hindered due to rigorous controls and complicated administrative procedures. The efficiency of the public sector was improved substantially after the adoption of certain reforms such as the requirement to attain a minimum degree of financial viability.

Public industrial enterprises were required to compete on equal and non-discriminatory terms with the private sector and also among themselves thereby dismantling the monopoly power enjoyed by them.

Over the period 1973-1977 the gross output of public industrial enterprises grew at an annual rate of 0.2 per cent. During 1977-1979 the growth rate recorded was 6.45 per cent. The disappointing performance of the earlier years was due to low production recorded by cement, flour milling, plywood, steel and tyre industry handicapped by shortages of raw materials and machine breakdowns. However the position improved remarkably in 1978 mainly due to dynamic management attributes and improved labour relations. A further reason was the new economic policies which placed public corporations under commercial guidelines.

Private industrial enterprise also recorded significant improvements consequent to liberalization of imports in late 1977. This sector which was crippled for over 16 years due to severe import restrictions was able to programme production and growth to meet the needs of the country. A high level of capacity utilization due to free availability of inputs was mainly responsible for growth. In 1978 the private industrial sector recorded a growth of 8.4 per cent and in 1979 there was general stabilization of the spurt. Comparative growth rates of private industry for the last few years is given in Table 4.

TABLE 4: PRIVATE MANUFACTURING SECTOR PERFORMANCE

	1974	1975	1976	1977	1978
Total value of output of private manufacturing sector (Rs. mn) 1959 factor cost price	1420	1402	1489	1505	1632
Contribution to G.N.P. (%)	13.1	13.1	12.9	12.5	12.6
Growth rate of manufacturing sector (%)	0	2.9	1.8	1.1	8.4
Growth of G.N.P. (%)	3.8	2.8	3.0	4.4	8.2

Source: Central Bank

Specially high growth rates have been recorded in the following industrial branches:

	Category	1977 (Rs. mn)	1978 (Rs. mn)	Rate of Growth
1.	Basic metal Products	2294	2609	66%
2.	Textile and weaving apparel	698	1008	44%
3.	Non-metallic mineral	411	592	44%
4.	Paper and Paper products	270	376	39%
5.	Chemical Petroleum Products	2496	3279	33%

This rapid growth has led to an expansion of approvals for the establishment of new industrial units in the last few years. Table 5 lists government's approvals and investment sanctions within the private sector.

TABLE 5

PRIVATE SECTOR INVESTMENT

	1973	1974	1975	1976	1977	1978	1979
Industrial units approved	112	87	52	408	493	1070	730
Investment (Rs. mn)	19.9	23.3	5.4	28.3	87.2	606	263

Source: Ministry of Industries

2.3 Impact of Public Industrial Enterprises: Qualitative Assessment

As Table 6 shows public industrial enterprises account for 100 per cent of production in basic metal products, 86 per cent in chemicals and petrochemicals, 83 per cent in wood and wood products, 52 per cent in the paper industry and 46 per cent in textiles. Together these industries account for 64 per cent of total production. The public enterprise's share of total manufacturing production is 58 per cent. Its share of manufacturing investments is only around 32 per cent; its share of manufacturing employment is of the order of 34 per cent. Public enterprises thus compare favourably in terms of

Table 6 Distribution of Priority Manufacturing Industries by Public and Private Sector (latest year available).

Industrial Group	Share of Total Manufacturing and Proportion of Public and Private Sector of Various Manufacturing Categories of: Manufacturing output		Manufacturing Value added	
	Share of Total manufacturing output (Public & Private)	Proportion of Public Sector in each Manufacturing Category	Share of Total manufacturing value added (Public & Private)	Proportion of Public Sector in each manufacturing category
1. Food, Beverage & Tobacco	29.50	34.70	43.90	NOT AVAILABLE
2. Textile, wearing apparel and leather products	11.40	46.20	6.90	
3. Wood & Wood products	1.30	83.00	2.00	
4. Paper and Paper Products	4.30	52.90	6.20	
5. Chemicals, Petroleum, coal, rubber & plastic products	37.00	86.00	16.90	
6. Non metallic mineral products (except petroleum & coal)	6.70	53.70	12.50	
7. Basic Metal product	2.50	100.00	1.80	
8. Fabricated Metal Products, Machinery & Transport equipment	6.70	4.40	9.40	
9. Manufactured Products Not elsewhere specified	0.60	7.30	0.40	

Table 6 (continued)

Industrial Group	Manufacturing Investment		Manufacturing Employment	
	Share of Total manufacturing Investment (public & private)	Proportion of Public Sector in each manufacturing category (Percentage)	Share of Total Manufacturing Employment (Public & Private)	Proportion of Public Sector in each manufacturing category
1. Food, Beverage & Tobacco	29.50	14.60	22.90	38.00
2. Textile, wearing apparel & leather products	11.40	62.40	28.60	34.00
3. Wood & Wood products	1.40	67.30	4.90	85.00
4. Paper & Paper products	4.30	89.30	6.60	60.00
5. Chemicals, Petroleum, Coal rubber & plastic products	37.00	28.00	11.80	21.00
6. Non Metallic mineral products (except petroleum & coal)	6.70	33.50	10.90	18.00
7. Basic Metal Products	2.50	100.00	1.60	100.00
8. Fabricated Metal Products, Machinery & Transport Equipment	6.70	4.80	11.50	10.00
9. Manufactured Products Not elsewhere specified	0.50	89.00	1.20	65.00

productivity. However the relatively low investment share may partly be explained by governmental decision to curtail public sector capital expenditure. This may lead to a reduction in the public sector's share of manufacturing output in the future.

Public manufacturing enterprise in Sri Lanka are mainly domestic market oriented. Their share in manufactured exports is less than 25 per cent. Their share of manufactured imports is roughly similar although they account for a significantly larger proportion of raw material imports into the country.

The domestic market orientedness of public industrial enterprise is also reflected in their use of national natural resources. They process over 50 per cent of the agriculture, fishery and forestry resources of the country and well over three-quarters of its metallic and non-metallic mineral resources. The proportion of domestic agricultural and non-metallic mineral resources in the raw material inputs of public enterprise is also very high - although almost 75 per cent of the metallic mineral inputs are obtained from foreign sources. Even in this area however there are signs of improvement.

The emphasis on the use of domestic natural resources has meant an expansion of links between public firms and small scale enterprises. Currently these links remain tenuous. Small scale enterprise provide a very small proportion of the total inputs of public manufacturing firms and consume a very small proportion of the output. In certain industrial branches - shoes and leather products, tiles and bricks, hardware, scrap etc. - there is competition between small scale enterprises and public firms.

However some public enterprises have provided services to small scale industries Most industrial enterprises have supplied training facilities indirectly by accommodating in-plant trainees and conducting specific training programmes.

Some other public sector industrial enterprises have provided direct assistance such as:

(1) Tyre Corporation - supply of compounds to private industry who have no technical capabilities or capacity.

(2) National Paper Corporation - supply of paper for making books.

(3) Ceylon Oxygen Company - supply of Oxygen and Acetylene for industry.

Public enterprises have also contributed to rural development. They have provided civic amenities and direct employment in rural areas. Special mention may be made in this connection of schemes for:

(1) Cultivation and harvesting of sugar cane for the Sugar Corporation.

(2) Collecting special clay for the Rattota Ceramics Corporation Noritake Branch.

(3) Collecting of clay at Kankesanturai for Cement Factory.

Public enterprises also contribute to the provision of basic needs through the manufacture of flour, sugar, fish, timber, textiles, cement, bricks, tiles etc.

Finally it may be noted that public firms make a relative insignificant contribution to technological development in Sri Lanka. They account for less than 5 per cent of the national research and development expenditure and devote a very small proportion of their budget to technological innovation and adaptation. Technology is usually acquired from abroad. Technical collaboration agreements exist between Ceylon Petroleum Corporation, Ceylon Ceramics Corporation and Tyre Corporation and a number of US and European multinationals.

Wider co-operation agreements also exist between Sri Lankan public firms and public and private enterprises based in other countries. The following examples may be cited.

(1) Sri Lanka Tyre Corporation has entered into a Technical Collaboration Agreement with Messrs. B.F. Goodrich USA on a Royalty payment basis.

Only technical advice is given. Availability of all technical know-how developed by B.F. Goodrich after 5 years from date of commercial application is assured.

(2) Ceylon Petroleum Corporation has entered into a technical collaboration agreement with Unitika Ltd., Osaka Centre Building 4-68, Kita Kaytasomadu Higashi-Ka, OSAKA, JAPAN - Turnkey project, with Management and Technical know-how for a specific period.

(3) Ceylon Ceramics Corporation has entered into an agreement with Noritake Ltd., Japan. Turnkey project - Technical and Management know-how supplied - together with guaranteed purchase of all standard production.

In general, therefore, it may be maintained that although there has been improvement in the performance of Sri Lankan public enterprise, there are many areas in which there is room for further progress. This requires an assessment of the organisational development within the public industrial sector and of the scope for increasing managerial efficiency. The next section addresses these questions.

3. Organisational Forms and Legal Structure

3.1 Organisational Forms

Only three types of public industrial enterprises function in Sri Lanka. They are:

(1) Departmental Undertakings

(2) Statutory Corporations

(3) Joint Stock Companies.

Of these the bulk of the industrial enterprises fall into the category of Statutory Corporations (see Table 7) and in terms of capital investment they account for over 98% of the total investment. The only departmental undertaking of an industrial nature of significance is the Department of Small Industries which supervises Cottage Industry. There are three

TABLE 7

ORGANISATIONAL FORMS OF PUBLIC ENTERPRISES IN SRI LANKA

	Number of public Industries	Share of Value added in public industry	Average Annual rate of growth of MVA last 5 years
Departmental undertakings	Number of small industries under Dept. of Small Industries		
Statutory corporations	26	NOT AVAILABLE	NOT AVAILABLE
Companies under company law	6		
Holding companies with subsidiaries	-		
Other (specify)	(a) 8 *		

Comments: * (a) Undertakings acquired by the Government under The Business acquisition act.

Value added = Value of Product - (Power + Raw Materials) industrial enterprises of very recent origin of the third category, two of which are joint stock companies floated by the Ceramics Corporation (Lanka Porcelain Ltd. and Lanka Wall Tiles Ltd.).

The managerial efficiency of the Departmental Undertakings is the least satisfactory due to rigid departmental proceedings and controls. Further due to the total absence of risk bearing attitudes these undertakings tend to be least effective.

The statutory corporations were established with greater autonomy for speedier decision making and execution of the institutions objectives. However in Sri Lanka these corporations are also subject to a very high degree of control both from the respective ministries and the Treasury. Determination of salary scales, and the granting of remuneration and fringe benefits to employees comes strictly within the purview of the respective ministries and the industrial corporations have no autonomy in this regard. This has resulted in the existence of wide differentials in the salary scales applicable to managerial and professional staff between public and private sector organisations and the private sector has been able to attract the best managerial skills.

A greater degree of autonomy is vested in the joint stock companies. Employees in these organisations do not have to conform to rigid wage structures as in the statutory corporations. Due to their comparatively recent origin it is yet premature to comment on the managerial efficiency of these firms.

Another category of public enterprises in Sri Lanka is known as the Business Undertakings. These are organisations which were formerly managed by the private sector and which have been acquired by the state under the Business Acquisition Act. They are managed by a Competent Authority appointed by the respective minister in concurrence with the Finance Ministry. The Competent Authority is solely responsible for the proper administration of the institution.

The main institutions falling within this category are:

(1) Ceylon Oxygen Company

(2) Gas and Water Company

(3) Colombo Commercial Company

(4) United Motor Company

(5) Wellawatte Weaving and Spinning Mills

The degree of efficiency of these institutions tends to be generally higher than the categories mentioned earlier. Due to wide powers ed by the Competent Authority the process of decision making tends to quicker and the answerability at all levels is clearer. The Competent Authority is guided in the day to day decision making by an advisory committee consisting of the key departmental heads of the institution. However they are also subject to normal governmental controls with regard to selection of employees promotions, granting of fringe benefits etc.

3.2 Governmental Institutional Support for Public Enterprise

The Government exercises its role of supporting the development and growth of public industrial enterprises and effectively monitors the operations and ensures overall control through the following controlling agencies:

(1) The Supervising Ministry in charge of the Industrial Enterprises

The Ministry is responsible for the following:

(a) Laying down of general policy and objectives

(b) Continuous supervision of the activities of the industrial enterprise

(c) Examination of all new proposals

(d) Approval of the annual budget

(e) Review of the draft annual accounts

(f) Appropriation of annual profits.

(2) Ministry of Planning

The Ministry of Planning is responsible for the following supervisory and control functions with regard to the industrial establishment:

(a) Evaluation of new proposals, increasing of authorized capital and investment of funds exceeding Rs.500,000.

(b) Co-ordination of development plans and expansion of schemes submitted by the Corporations according to national priorities and targets.

(c) Laying down guidelines for the information of Ministries for economic and financial evaluation of Corporations' activities.

(d) The Planning Ministry also assists the respective Ministry and the industrial establishments in performance evaluation by advising on the format of the annual reports and the substance and the type of detail it should contain.

In addition to the above two ministries, The Treasury also carries out the following major functions with regard to performance evaluation and control of activities of the industrial enterprises:

(1) Examines carefully the Annual Budgets, accounting and Balance Sheets.

(2) Keeps a watch on investments to ensure a fair return as well as to ensure repayment of loans and interest etc.

Further, the performance of public industrial enterprises are also r iewed by the National State Assembly on the following occasions:

(1) During budget debates.

(2) During debates such as when the enterprise presents its long term development plans or when extra capital is sought.

(3) When the annual reports and accounts are laid before the house.

(4) When questions are raised in Parliament.

The affairs of the public industrial enterprise comes up for critical examination during the budget debates and when the annual reports together with the Auditor General's reports are tabled in the House, but due to pressure of Parliamentary time, the reports are not generally examined in great detail. Further the opportunity available for Members of Parliament to discuss any matters regarding the working of Corporations during question time has been of limited use.

Training of Skills

The Government achieves the objective of enlarging and enrichment of the individual skills and aptitudes of its employees through organised agencies such as National Apprenticeship Board, National Institute of Business Management etc. to which employees from industrial enterprises are sent for training and development. These organisations are geared to cater for the needs of all levels of employees including the management as well as skilled technicians and workers.

Improvement of Technology

Government also encourages the development and growth of institutions by acquiring modern technology through foreign participation and collaboration agreements. Generally collaboration agreements which are closely scrutinised by the Ministries lays heavy emphasis on training of staff and obtaining of technical know-how directly from the source. An example of this type of activity is the agreement signed by Ceylon Tyre Corporation with Messrs. B.F. Goodrich Company in U.S.A.

Public enterprises have recently attempted to motivate the employees by nominating one of their worker representatives onto the Board of Management so that general employee problems particularly those originated on the shop floor can be properly discussed at Board discussions. This has met with a fair degree of success so far.

Employees participation is also encouraged by the Government by the appointment of Employees Councils in most public enterprises where these Councils function purely in an advisory capacity.

Incentives and Motivation

While no incentives and motivations for improved performance have been introduced into the public industrial enterprises system so far some of the industrial enterprises have implemented their own schemes with the concurrence of the respective Ministries. Steel, Tyre and Cement industries are some of the major examples. The incentive schemes operated by these enterprises are based on production output as a percentage of capacity utilization. Quality, wastage, input output variances etc. are also brought into the computation. Direct operators are rewarded according to the individual performance wherever it is readily measurable while the indirect workmen are rewarded on a group basis. In all these enterprises all employees, both factory as well as service employees (e.g. those servicing personnel, administration, accounts etc.) are also brought into the scheme.

Most enterprises pay shift allowances to motivate attendance in the night shifts. Such allowances add up to about 10% of the wages. Attendance bonuses are also paid by most enterprises to motivate good attendance since absenteeism is one of the main impediments to achievement of production targets. However there is a tendency to treat wage and salary incentives on productivity as an alternative to much needed base-wage and salary increases commensurate with increase in cost of living etc. This is resorted to since there are limitations by the Government on wage scales which are extremely poor compared to market rates in the private sector. The overall impact of governmental co-ordination and encouragement of public enterprise is difficult to assess.

State industrial establishments have been established under different Ministries and are directly accountable to each Minister. Some ministries have set up special divisions to carry out the central co-ordinating function. In the Ministry of Industries which accounts for the highest number of industrial establishments separate divisions are set up to carry out the different aspects of performance evaluation, investment, training, allocation of foreign exchange. Performance indices such as fulfillment of budget, capacity utilization, return on investment, output per employee etc. are closely monitored by these divisions. Besides the ministry concerned, the corporations division of the General Treasury also exercises control through the evaluation of project activity, examination of annual budgets and review of major increases on investment/expenditure before granting approval.

The Corporations Division of the Ministry of Planning exercises a similar co-ordinating and controlling function. It examines the investment programme in relation to production turnover and allocation of foreign exchange and carries out project evaluation as well as reconciliation of programmes within the sectors of the national plan. Further the Central Bank carries out an annual review of the performance of each public industrial enterprise and publishes the results in its annual report. The final accounts of each state corporation are also audited by the Auditor General and submitted to the Public Accounts Committee which finally makes its observations to the National State Assembly.

However a strict performance evaluation system has not yet been evolved to carry out evaluation on a uniform basis, but different agencies of the Government examine the performance of these institutions from different viewpoints and submit the findings to the relevant authorities. Since the criteria of evaluation of the different institutions would vary greatly in view of their different roles within the economy it may be impractical to think in terms of a uniform performance evaluation system to encompass all industrial establishments.

Further the Government ha: established a Committee on public enterprise (COPE) which consists of Members of the National State Assembly of the level of Junior Ministers and other Members which meets at least once a year with the Board and senior executives to review progress of individual public enterprises.

4. Conclusion

Public Industrial Enterprises play a major role in the economy of Sri Lanka. The major industries in the country such as steel, petroleum, flour tyre and chemicals are controlled by the Public Sector. Many public industrial enterprises commenced as Governmental Department units and have been transformed into Statutory Corporations. Others were established as Statutory Corporations after 1957. There are a total of about 27 industrial enterprises in this category. The other types of public industrial enterprises are the companies which were nationalised and called Nationalized Government Business Undertakings and Joint Stock Companies with majority Government shares.

The investment of public industrial enterprises has grown appreciably over the years. Investment growth in '77, '78 and '79 is appreciable. Profi bility, though low until recent times, has increased substantially since 1977. This increase after 1977 owes a great deal to increases in selling prices which were controlled hitherto and to a lesser extent to increases in capacity utilization.

There has also been an appreciable increase in employment levels. Most organisations show considerable overstaffing since employment expansion has often taken place with little regard for organisational needs or suitability and efficiency.

Public industrial enterprises have made a fair contribution towards social development and have acted as a model employer. They have also contributed substantially towards regional development.

However the management efficiency of most public industrial enterprises is still low. Unrealistic governmental and bureaucratic procedures and rigorous controls have largely contributed to this situation. These institutions cannot attract the best management and technical talent at the higher level due to restrictions on wages and fringe benefits. Unrealistic pricing policies in the past have resulted in low profitability of most of these institutions. The system of incentives for improved performance that has been introduced in some organisations has as yet had limited results. There is a tendency in some corporations to use wage incentives as a convenient means of giving essential wage increases in lieu of base-rate changes which are controlled by the Ministries. A strict performance evaluation system has not yet been evolved to carry out evaluation on a uniform basis. Different agencies of the Government carry out appraisals from their own viewpoints.

There is an appreciable growth in industrial output both in the public and private sectors in the last few years. This has come about due to the ending of a long period of controls and the emergence of a competitive atmosphere together with the liberal availability of imports. The Government has recognised that a major constraint on the growth of the manufacturing sector in Sri Lanka is the small size of the local market. It has put emphasis on increasing the international competitiveness of local industries in order to develop an export-oriented outward-looking industrialisation strategy. The protected and monopolistic position enjoyed by public industrial enterprises have been removed and they have been induced to function as viable self-supporting institutions. Foreign collaboration and participation has been greatly encouraged. The public sector is not expected to play the dominant role it used to play in the industrialization of the country and while it is expected to confine itself to those industries in which it already has a leading role the private sector is being encouraged to play a far more active part within the Sri Lankan economy.

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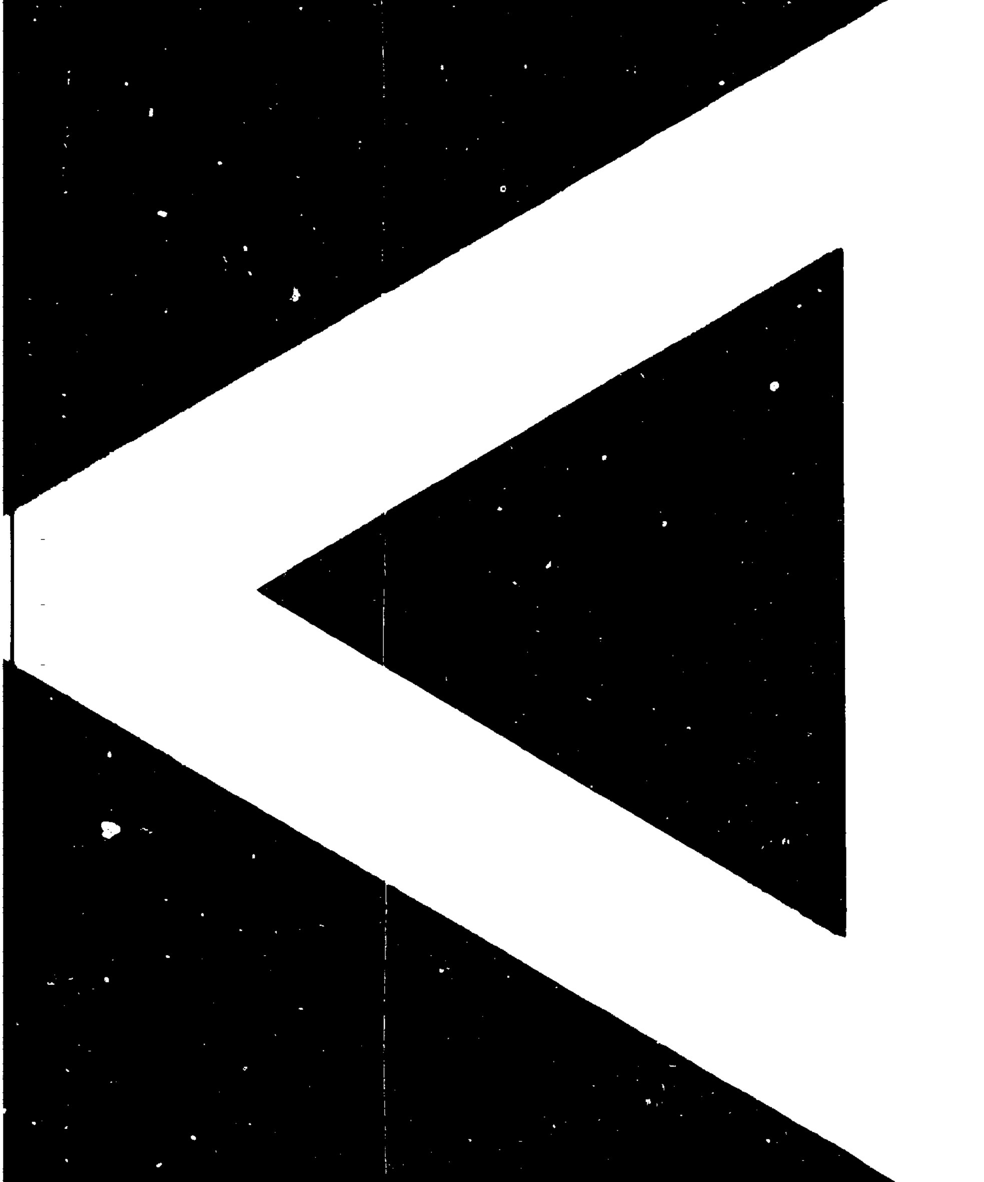

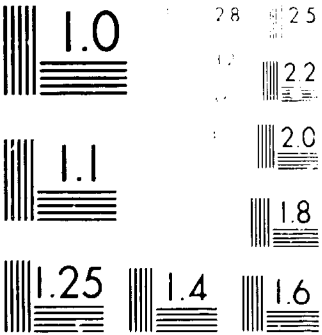
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