

**PUBLIC SECTOR: ITS
ORGANIZATION & MANAGEMENT**

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At one time the great issue was whether Public Sector should expand or even exist all. But now in Pakistan, as elsewhere in many countries of the world, particularly in the under developed Third World, this debate is over. All the thinking and the intelligence that was expended in bringing forth the advantages of the Private Sector, should now be reserved to make a success of the Public Sector, not only for its own sake, but for the sake of community's survival in the economic field.

The emergence of Public Sector has come about through Socio-Political compulsions, and it is therefore futile to measure the imperatives in strictly economic terms. Even if long-held beliefs and concepts should dictate to the contrary, it is essential that the intelligentsia of the under developed world (reared as it is in the traditions of Western thought, and soaked as it is in the blessings of Private enterprise), should accept the inevitable process of History and become the vanguard of Development Managerial class with the skills they possess.

In the practice of Public Sector, the greatest dilemma is how to organize it, how to make it efficient and how to make it motivated enough to replace the Profit propellant of the Private Sector. Many experiments have been made in this regard and it would perhaps be possible to benefit from them. In order to do so let us look at the Historical perspective first.

The most well known case, of course, is that of Russia. In Russia, forms and methods of management have changed continually, although the four basic principles have governed all the patterns, namely :

- (a) State Planning
- (b) Democratic Centralization

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(c) Economic accountancy & material incentive

(d) Combination of profitableness of all State Industry.

The Chinese pattern is very similar to the Russians although the Chinese think that Russians have deviated considerably, (which they have).

Yugoslavia, although essentially similar, has many distinguishing features, particularly with reference to the internal control and autonomy of the public corporations, which are not centrally controlled as in Russia. They are separate economic and legal entities possessing all the attributes of independent organizations. Thus all the basic characteristics of the 'market' economy can be seen in Yugoslavia. The management is through workers' councils, who elect a Managing Board. This method was adopted at first in Russia also, but was eventually abandoned. The basic departure in this approach is that reliance has been placed on democratic management, rather than taking State as the incarnation of an omnipotent consciousness which alone can and should determine the movement of economic forces in minute details.

USA represents the other extreme, and this is based on a sturdy tradition of individualism jealously guarded through the constitution. At one time Postal System and the Panama Canal were the only major enterprises directly owned by the Government. Even today "Competitive Industry" account for 67.3 per cent of the total national income and 76.5 per cent of the total number of persons engaged. The meagre area of public corporations comes under rigid legislative control.

The third group of countries from which Pakistan can expect to draw inspiration and experience, comprises of U.K., France, Italy and the Scandinavian Countries.

The History of evolution of the Public Sector in the U.K. goes back to 1919, and since then, it has seen many ups and downs, with two World Wars giving great impetus to the Socialist doctrines. The period 1945-50 when Labour Party was in power was a period of considerable expansion the Public Sector, although movement towards nationalization need not entirely be attributed to the socialist dogma, the inherent dislike of the British people to any form of monopoly led to nationalization of Electricity Supply as early as 1926. However the U.K. is still a long way from the "common ownership of means of production, distribution and exchange". Deeply disturbed at the results of nationalization, the

intellectuals of the Labour party are now thinking how greater Social economics equality can be achieved without further nationalization and more public ownership.

In France, even in the nineteenth century, the State had acquired a monopoly for the manufacture and sale of matches and tobacco products. Until the end of world war II however the trend was towards majority participation by the State, rather than a total take-over. Today the State holds stock in companies engaged in such diverse activities as mining, motion picture production, broadcasting, news agencies, petroleum production and distribution, chemical manufacture, the merchant marine and river navigation.

French Trade Unions have played an active part in the movement towards nationalisation. This has not been restricted only to securing better rates of pay or higher benefits, but the trade unions have sought and got a share in formulation and execution of economic decisions. They are represented on major national advisory bodies. Even in Private enterprises, workers, participation in management is ensured through Works Committees. On the Boards of nationalized industries, however, three (3) interests are presented—Government, Employees and Consumers organizations. According to some observers, the French System does not make for energetic administration, but others feel that this arrangement provides perhaps the only convenient method by which the conflicting interests of three parties can be resolved.

In Italy, the burden of country's Industrial development was largely assumed by the banks, by acting as intermediaries between the timid savers and industry. However, to prevent an economic collapse, as a result of the 1929-30 crisis, the Fascist Govt. of Mussolini created the Industrial Re-construction Institute with the purpose of taking over the industrial assets of the banks and restoring to them the liquidity they needed to face their depositors. Fascism adopted a quasi-private concept of nationalization, relying, to a very large extent on the old managerial class, and in some instances admitting continued private participation in stock ownership. This has been opposed, in the post World War II era, by parties of the extreme left, who insist on management by workers councils.

The Scandanavian Countries present a slightly different picture. Greatest emphasis has been placed on co-operatives, but private and

public enterprises exist side by side. Absence of monopoly generates keen competition, with resulting benefits in the form of moderate prices, better quality and able and alert management. Sweden has relied heavily on its civil service to manage the public sector Enterprises, which exist alongside private enterprises. This arrangement avoids Monopoly and encourages keen competition. For instance, although the state is the largest generator of Electric Power, it meets only 40% of the country's requirements and is responsible for little more than 1% of Distribution.

In Pakistan, an experiment in Public Sector, in a very limited sense, was initiated with the setting up of PIDC in 1950. However it merely represented a policy to supplement, rather than displace private enterprise. It was established, primarily with the object of promoting such Industrial enterprises as private industrialists were either unable or unwilling to undertake. The interesting point to note about PIDC is that it was intended to encourage and promote industrial development, not to own the means of production. Thus industries were set up with heavy initial capital investment with a long gestation period, and in areas which were, from an economic point of view, in certain cases, the most undesirable and disadvantageous. Of course, the selection and setting up of industries was defended on the grounds that basic industries which were essential to the healthy growth of the economy had to be set up in public sector on account of the reluctance of the private sector for very obvious reasons. And seemingly uneconomical siting was intended to help develop the backward areas of the country. Given this highly uphill task, under most unfavourable circumstance, one is entitled to wonder, was it not the intention to prove that public sector did not suit the conditions obtaining in Pakistan, and that our salvation lay in accepting the Havard point of view of private enterprise being the best course for rapid industrialization ?

Notwithstanding the above un-auspicious back-ground, it is encouraging to see that finally we are moving in the true direction of public sector. And our basic endeavour has to be to ensure that public sector is organized and managed in the best manner possible, so as to encourage its growth and let its benefits spread to the maximum number. Primarily it is this aspect of the subject that this paper is concerned with.

Our objective is to organize and manage Public Sector in such a manner as to promote national welfare without sacrificing the need for efficiency and economy. No priori rules can be laid down in this regard, as the form of organization must depend on the general state of economic development of the country, the type of managerial ability available and the immediate objective of the government of the day. That is why, as narrated in the earlier part of this paper, so many patterns of public sector exist and have been tried and abandoned.

The concept of organisation of public sector has varied from direct control by Government departments to the purely syndicalist view that an industry should be managed either by the workers themselves or by those elected by them. In the course of time, the view has come to be accepted that there could be no uniform rule regarding the form of organisation in a national undertaking. No two enterprises are alike in purpose, in responsibility, in history or in functional content; secondly, every enterprise is a living thing and depends more on the personalities of which it is composed and particularly its top leaders and their actual relationships to each other, than on the accurate demarcation of their duties and responsibilities.

There are mainly three types of organization in existence :

Departmental Management

Public Corporations

Company form of Management

While, the departmental type of management ensures maximum degree of control by Government, it is not very conducive to initiative and flexibility.

This inadequacy and the obvious drawback led to the adoption of the institution of Public Corporations.

The principal characteristics of Public Corporation are that (a) it is wholly owned by the state (b) it is generally created by or under a special Law. (c) as a body corporate, it is a separate entity (d) except for provision of original capital, it is usually independently financed (e) it is generally exempted from most of the regulatory Laws and procedures applicable to the expenditures of public funds and (f) in most cases, employees of Public Corporations are not civil servants.

All these impart to the Public Corporations a high degree of operating and financial flexibility. However, despite the autonomy

guaranteed to the Board of a Corporation by statute, Ministers have been known to interfere in matters of internal administration. To keep politics 'out' is a big and urgent dilemma. In the other extreme, proliferation of Public Corporations has resulted in creating a headless fourth branch of the Government, who in the name of efficiency and flexibility, become more autocratic than a dictatorial political regime.

More recently the new development is the organization of Corporations (or Companies) to manage a number of producing units. These are set up under the Companies Act, mostly wholly government-owned, with nominated Board of Directors. Thus although in outward appearance they are incorporated like any other Companies, but in actual practice they can become another arm of the ministries through ex-officio appointments of the high Govt. officials on their Boards.

The argument put forward in favour of this arrangement is that it makes for smooth functioning of the enterprises. Smooth functioning, however, does not necessarily mean efficient functioning, an smoothness is often achieved at the expense of bold and imaginative handling of the affairs of the undertaking.

The tools for improved management are the same in the public as in private undertaking; there has to be decentralization as well as co-ordination. In the ultimate analysis, the efficient conduct of an enterprise depends more on the personnel placed in charge and the framework within which they are allowed to operate than upon rules, procedures or techniques.

One need not feel unduly pessimistic over the dilemma of management. A successful balance between decentralization of management and central control of policy takes time to establish.

Problems of Personnel :

The under-developed countries are faced with the following problems in respect of personnel required to operate the undertakings in the public sector :

1. Specialized skills are in short supply and the educational system is not designed for the needs of an Industrialised economy.
2. Deficiency of skilled personnel cannot be made good by large-scale recruitment from more developed countries.

3. No improvement is possible in the working of the undertakings unless native executive talent is developed.
4. For senior management position in public undertakings it is difficult to attract talent from private industry and commerce on account of difference in emoluments and the reluctance to serve in a quasipolitical atmosphere.
5. In view of the above, prestige attached to the positions of importance in public sector is a major consideration for those who join, but it is an inadequate motivation to run it with devotion, speed and efficiency.
6. The short supply of managerial talent has necessitated reliance on civil service to fill vacancies in the administration of industrial undertakings and this has had mixed results. For civil servants, on temporary assignments, it is a matter of discharging, at best, a certain duty conscientiously but unenthusiastically.

In a nascent public sector, these problems assume proportions of gravity and absence of top managers devoted ideologically to the concept of public sector and having a sense of identification with the enterprises is causing concern to those responsible for the success of the new experiment. And ultimately it is in top manager's attitudes, imagination and drive that success or failure of an enterprise is anchored in. It is therefore vitally important that the best amongst the managers, very few as they already are, are attracted towards administration of the public sector enterprises. As a long term measure, a well conceived system of education and training is necessary to ensure supply of required number of managers who have attained proficiency not only as professional men, but also as a dedicated group of people conceptually committed to the success of public sector as an institution of extra-ordinary importance for the economy of the country. This concern for adequate training of professional managers must not be limited to the top management positions. Middle management has a vital role to play. It deals with the workers at much closer proximity. With the emergence of working class as a powerful political force, the supervisory personnel has been emotionally shaken up, and unless their confidence is restored and their position re-defined in the changed set up, indiscipline in the ranks of workers is bound to adversely

affect not only the productivity but more importantly, the quality of products produced.

Accountability

Motivation is such an important factor that it is customary to distinguish between public and private enterprises by referring to the motivations of their respective managements. Although both serve the public by producing goods and services, in a private enterprise the provision of this service is a by-product of profit-making, whereas in a public enterprise, it is the direct and conscious objective. Secondly, the principal reason for establishing a public enterprise is that economic development must be accelerated for its own sake and this is impossible to achieve if everything is left to Private Sector.

Finally the imperatives of socio-political objectives dictate the necessity of setting up of public enterprises so that inequalities in income and wealth may be avoided and concentration, in a few hands, of the means of production, may not result in disequilibrium of the political processes.

In order to ensure that public money is spent in a judicious manner, much attention has always been paid to the accountability aspect of public sector. Since it is public money that forms the bulk of investment, it is only fair and proper that concern be expressed about the ways in which it is spent. This rendering of account cannot be limited to mere presentation of figures ; it is implicit in the exercise that accountability includes control.

Since legislature is the obvious representative and custodian of public rights, accountability to public generally means rendering of accounts to the legislature.

The situation, of course, is immensely complicated. The dilemma of public enterprise arises from having to marry the two opposites—the business flexibility with public accountability. This dilemma is particularly acute in the democratic countries, where the governments are apprehensive about permitting an agency to act too independently, and at the same be itself accountable to the electorate in this regard. It is a paradox to achieve maximum flexibility as well as maximum accountability. Unfortunately the greater the insistence on accountability, the less the possibility of being flexible, and vice versa. One cannot have the best of

both worlds. To arrive at a working balance between freedom and accountability is an exercise in artful Government.

Whereas ministerial interference and over-exposure to general parliamentary control (which is mostly playing to the gallery and catching the limelight in press or television,) is not very conducive to efficient management of the undertakings. Compromise can be found by creating select committees of the parliament who would examine in detail (a) the financial outcome of operations (b) the working of undertakings with reference to the techniques of managerial efficiency and the devolution of authority within it, (c) relations with consumers and public (d) relations with other industries and undertakings and (e) recruitment and training policy in regard to technical and managerial staff.

Annual reports of all public enterprises, comprising of their balance sheets and Profit and Loss account present an excellent opportunity to examine the basic state of health of the undertakings. Whereas the practice of entrusting such enquiry to Public Accounts Committees of the assemblies has proved to be unsatisfactory, solution could be found by entrusting this scrutiny to professional auditors appointed by the Government or the parliament. If it is felt that parliamentarians may not have the desired confidence in audit done by outside persons, provision for supplementary audit by the Auditor-General can be made and this may be invoked when normal audit reveals gross mis-management, or if Parliament in a certain case has a reason not to rely on the audit conducted by the outside agencies.

It is also possible to institute some form of efficiency control by constituting a High Powered Body, which shall have at its disposal, the services of men of calibre in the various professions. Each year this team may pay a prolonged visit to an enterprise and submit its report to the Minister who would place it before the legislature. This would enable the Members of the legislature to discuss the affairs of the undertaking in a more pragmatic and productive manner. This need for evaluation and review and of measurement of performance is an essential ingredient of the exercise of accountability of public enterprises. But whereas it does appear to be a very practical and workable arrangement the crux of the problem again arises in the availability of men of integrity and professional skill who could conduct such appraisals. Do under-developed

countries like Pakistan have such trained Management engineers with adequate industrial, financial, commercial and administrative experience? Even if you have them, what may their number be! Ought not these people be running these enterprises, and not inspecting them.

No enquiry of public enterprises can be fruitful if it becomes an inquisition. The object of enquiry should be to make constructive suggestions for improvements in the management and working of enterprises. Only thus can we hope to achieve the desired results and move forward to a public sector which is flexible, profitable and accountable at the same time.