MEETING OF EXPERTS ON ADMINISTRATION OF PUBLIC ENTERPRISES IN LATIN AMERICA AND THE CARIBBEAN
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ANALYSIS OF PUBLIC ENTERPRISE PERFORMANCE: SOME COMPARATIVE CASE STUDIES

Paper prepared by the Public Administration Division of the United Nations
1. In a free enterprise system, private or for that matter public, adequately regulated by the market mechanism, sufficiently responsive to indirect controls, and on the whole "doing well", there is no need for supervisory authorities to gauge the high- from the low-performers, to look at the inner functioning of individual enterprises, or even to relate to them as individual enterprises. The individual enterprise could be and should be perceived as a "black box". However, this may be a feasible posture for supervising authorities where no serious performance shortfall obtains. As supervising authorities in developing countries confront situations of performance shortfalls among government operated enterprises, they are impelled, irrespective of their preferred style of supervision, to make direct interventions designed to bring forth corrective action.

2. A performance shortfall, being a difference between the actual and the attainable expected or targeted performance results in a given situation, is both a scourge and a promise to a public enterprise system. More important than the shortfall is the "motion" toward the attainable. Whether or not a public enterprise or a population of public enterprises is moving toward higher performance standard is the problem to be reckoned with. The task for supervisory authorities is to induce, facilitate and accelerate this movement. It involves a three-pronged attack on the problem of performance shortfall. First, high-performers have to be identified, reinforced, consolidated and rewarded. Second, low-performers have to be closely looked at. The incorrigible cases would have to be singled out for special treatment. The rest with a potential for performance improvement are more amenable to corrective interventions. Third, the over-all performance of the public enterprise system i.e. the aggregated performance results of a given population of public enterprises would have to be continuously improved. These tasks

1/ Note, for example, the Yugoslav model as it simulates, under public ownership, the organizational model of a free enterprise economy.

2/ In situations of a serious performance shortfall, like the depression of the 1930's, supervising authorities in many developed countries intervened to take over failing enterprises.

/constitute what
constitute what may be designated as the performance-improvement function. The higher the credibility of a performance short-fall, as available records suggest, the greater the magnitude of this function. At the base of such a function is the analytical capability of assessing and diagnosing the performance of a given population of public enterprise, and, in turn, devising corrective interventions. Short of such an analytical capability, supervising authorities may well be in a position to "coerce" management action, exert pressure on operating management, ordain, but not necessarily influence the performance of a growing population of public enterprises.

A Methodological Note

This paper sets out to explore what goes into this analytical capability with a view to provide a working understanding of the forces bearing on public enterprise performance in developing countries. It reports on the main findings of a research project undertaken by the Public Administration Division based on a cross-section of comparative cases. Available evidence recurrently points to the availability of cases of visibly "successful" public enterprises operating side by side with less successful ones in the same national environment. In any one country covered in the field research evident cases of success and of dismal failure were ever-present and such contrasting cases have proved to be readily identifiable. The striking paradox in some countries covered by field research is the frequency of incidents - duly embroidered - of public enterprise failures in association with evident cases of success, and, at time of "heroic" performance against exceptional odds. This is deemed to provide a unique opportunity for comparative performance case studies. These were designed to search for the forces accounting for this differential performance in the same national environment. Broadly stated, the problem to be explored is what makes for such differential performance in a particular environment and in reference to specific, concrete and live cases. The focus is on intra-country rather than on inter-countries comparison. In any particular situation and given cases representing significant performance differential, the question is: What forces within a particular situation appear to account for this differential performance?

For a more extensive treatment see the draft report on "Measures For Improving Performance of Public Enterprise in Developing Countries", submitted as the main document for discussion in the U.N. Expert Working Group convened in Herceg-Novи-Yugoslavia, 13-24 October 1969.
4. Analysis of performance differentials in particular situations necessarily eliminates, in large measure, the total system effects and bring into sharper focus differences in enterprise management responses to a particular situation. What patterns of responses seem to correlate with success or to correlate with failure — is essentially the question posed by this analysis. For many observers of public enterprise performance, struck by the contrasting cases of high and low performance in the same country situation, would be inclined to underscore the forces operating within the enterprise boundaries more than the forces without. Debating the relative importance of these two sets of forces would be less than useful. For the two sets of forces necessarily interlock and are only conceptually separable.

5. It has proved particularly instructive to look at the visible contratable cases standing at the extreme ends of the spectrum than the doubtful bulk in between. On one end, there are oft-repeated cases, perhaps more demoralizing than cases of obvious failures from the start of enterprises that, after a hopeful start, have stagnated and deteriorated. Case examples of such "performance deterioration" are always at hand: the Port Authority which has been downgraded because of chronic indigestion which crept in as development proceeded; the continuous process pasteurization plant which resorted to intermittent production on account of milk procurement difficulties; the first-class hotel that shortly after a triumphal opening has become third rate on account of poor service and mediocre maintenance; the "supermarket" which slowly takes on again the familiar features of the much decried open-air market place. Such cases of performance deterioration are more indicative of the pathology of public enterprises than cases of uncertain health or "normal" functioning. On the other end, there are cases of successful, if not outstanding, performance which have significance out of proportion to their number. In a way, this observable differential points to the potential for performance improvement in the public enterprise sector; perhaps more so than inter-country differentials.

6. The most handy tool for analyzing this observable performance differential is the comparative case study technique. Comparative cases of high and low performance provide experience-based insights into what makes for effective
performance in a "given situation". One tool of analysis that has proved particularly useful and powerful in identifying, interrelating and assessing the forces bearing on public enterprise performance is the well-known diagnostic technique of force-field analysis. According to this technique, the performance of any individual public enterprise, or for that matter the total public enterprise sector - the technique being applicable at a micro and a macro-level - is taken as a function of a set of impelling forces, conducing to better performance, and of an opposite set of impeding forces which are inhibiting better performance. Through time, the change in the level of performance is a function of upsetting the equilibrium between these two sets of opposing forces. A simple graphical representation of this diagnostic technique is presented in Exhibit I below.

Exhibit I

A SCHEMATIC PRESENTATION OF FORCE-FIELD ANALYSIS

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Desired or Attainable Level of Performance

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Actual Level of Performance

impelling forces

impeding forces
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level of performance, for any individual public enterprise or for the public enterprise sector as a whole, is likely to remain stationary so long as the two sets of impelling and impeding forces are in balance. As the impeding forces gain in relative strength over the impelling forces, the performance level is likely to deteriorate. This diagnostic framework has been found helpful in searching for a valid interpretation of the cases of performance deterioration, and for contrasting them with cases of improving performance. The technique, however, does not provide the substantive interpretation. But it does help the analyst in identifying and evaluating the forces operating on public enterprise performance in any case. It is particularly helpful in diagnosing complex performance problems. And there is no doubt that the performance of individual public enterprises,
and for that matter the performance of a total public enterprise sector, presents a highly complex problem. The availability of a high-powered, yet rather simple technique such as force-field-analysis, proved valuable in basing reform prescriptions on adequate diagnosis.

8. The force-field-analysis, as briefly described above, was built into the design for undertaking twenty comparative case studies of performance, covering ten cases of high performance and ten cases of low performance. The countries covered included Ceylon, Colombia, Ghana, India, Kenya, Morocco, Pakistan, Turkey, Uganda and U.A.R. From each country two cases were drawn: one high and one low. A more intensive application of this analysis has been undertaken in workshop settings in Ceylon and the U.A.R. The workshops involved no less than 250 public enterprise managers and senior staff from their supervising ministries. An instrument of programming for performance-improvement in public enterprises, developed around the conceptual framework of force field analysis was used to get at the performance problems of 114 public enterprises. An interview schedule based on the same schema served to elicit more information through individual structured interviews with a cross-section of Afro-Asian public enterprise managers and senior administrators. More than 300 interviews were conducted in Algeria, Ceylon, Cyprus, Ghana, Kenya, Tanzania, Zambia, India and the U.A.R. The field information was supplemented further by interviews in depth with 35 management consultant and experts who have had adequate exposure to and intimate involvement in public enterprises in developing countries. A content analysis of field missions and advisers' reports touching on public enterprise performance in developing countries has also generated some useful insights.

9. From all this evidence, the problems of performance in public enterprises of developing countries can be glimpsed with some certainty. It would be difficult to judge how representative is the experience captured and it would be

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rash to claim that it is fully descriptive of the experience of a particular country or a particular enterprise. The only certainties are the individuality and uniqueness of the public enterprises observed and the diversity of problems they experience. These are so certain inferences that they ought to defeat any quest for uniform, simple and generalized solutions. Each enterprise observed represents a unique constellation of impeding and impelling forces, operating on its performance in particular ways. It is a task, and a difficult one at that, for supervising authorities to discover this unique constellation of forces pertaining to an individual enterprise in a particular situation. There could be situations, frequent as they seem, which call upon superior authorities to make this kind of discovery.

At the present stage of knowledge about public enterprise performance, it is perhaps more fruitful to grope for better diagnostic tools than for a general theory. The empirical findings to date are still too limited to test with any finality an adequate number of propositions. Nor do they lend themselves to any considered quantification. Nor can they be generalized to all public enterprises in all situations. However, they do provide the diagnosticians of public enterprise performance with more clues than can usually be inferred from a few case studies. Yet it would be erroneous to expect from this kind of diagnostic research a standard interpretation for public enterprise performance that would pertain to all cases. The best can be reaped from this kind of research is to be in a position to point out suggestively rather than definitively, "problem areas" that the diagnostician should look for - subject to further empirical verification in every case.

General findings

10. The findings point, indeed, to an enormous multiplicity of impeding forces - reducing or restraining the improvement in public enterprise performance. In general, the impeding forces perceived overbalance and outweigh the impelling forces. In cases of low performance in particular, the impeding forces figure as overwhelming while the impelling forces are fewer and inadequate. The responses of the operating managers suggest a greater multiplicity of impeding forces than those perceived by superior agencies' personnel, removed from operational responsibilities. But the responses of consultants seem to reinforce the multiplicity of these

/restraining forces
restraining forces in a variety of situations. Checking these perceptions by independent observations seems also to confirm this general picture. The sheer number, of course, of forces operating on both sides is not an accurate index of the observable imbalance that obtains in most cases. The strength of each of them will, of course, vary from instance to instance, and as perceived by different participants. With due adjustments in the number of forces by their relative strengths, the general picture remains the same.

11. These forces, classifiable as they are in a variety of ways, are subject to varying emphases from the different parties concerned. Forces within the enterprise and problems of internal management are more emphasized in the perceptions of consultants than in the responses of operating managers. The tendency on the part of the latter to project their problems on the external environment is quite understandable. A corresponding tendency has been observed among superior agencies personnel, to project the deficiencies and the short-fall on the operating manager on the firing line. Checking these mutual perceptions against each other has proved revealing of the patterns of organizational relations between the enterprises and superior agencies, as will be subsequently discussed. Striking, however, is the fact that in the perceptions of the three different groups there is an implicit agreement on the paucity of impelling forces - operating to drive the performance of public enterprises. Forces operating in this direction have been less frequently mentioned in all the responses and were found more difficult to spell out and to articulate.

12. Aside from the conventional practices of tariff protection and subsidization - which might be questionable as impelling forces from a sound growth viewpoint - positive forces favouring the improvement of public enterprise performance were found generally lacking or inadequate. It was found useful, in exploring the responses pointing to the need for help designed to improve the performance of public enterprises, to make the distinction between growth-oriented measures of help and artificial or restrictive measures. The former point to measures aimed at augmenting and widening the choices available to enterprise managers, inducing improvement in their capabilities rather than fostering their dependence upon the help-giving agency. It is in the former sense that effective help measures as impelling forces are lacking.
are lacking or inadequate. In a real sense, it was found that the largest segment of the population of public enterprises observed, except for cases where public enterprises emerged through nationalization of established foreign enterprises and where an element of continuity is still present, represents infant enterprises operating in a difficult environment. This renders the public enterprise manager's job more difficult than that of perhaps his counterpart in the private sector and definitely more than that of his counterpart in a developed country. But this should not serve the purpose of public enterprise apologetics inasmuch as it should make for an adequate appreciation of the operating manager's problem and his need for help in relating to supervising authorities. Such help has to be geared to inducing organizational development and enhancing the capability of operating management to cope with its problems.

13. The perceptions of the different groups seem to suggest a good measure of awareness that the key impelling force in the performance of public enterprises relates to the competence and motivation of the top-management of public enterprises. With the growing vertical diffusion of top-management authorities under central development planning and a hierarchy of supervision, it has become difficult to define the top-management structure in public enterprises exclusively in terms corresponding to the private corporate structure. Even where the same nomenclature is in vogue, the connotations might be significantly different. The management board, the top senior executive and those who directly report to him carry different roles in different institutional settings. Furthermore they are a part of a higher hierarchy that extends to supervising authorities. However, the field evidence indicates that a key role is taken up by the operating management at the enterprise level even in the most centralized system of management of public enterprises, and under the closest supervision. On the strength of available field evidence, the strategic role of operating management, at the individual enterprise level, need not be overemphasized - except for the inherent tendency under centrally managed systems to devalue the role of operating

managers in favor of overestimating the contribution of central planners and superior agencies personnel. There is evidence in several countries covered by the field work that the job of the public enterprise manager is valued as less glamorous and less prestigious than that of a member of the central planning commission or the senior personnel in supervisory and control agencies. The evidence suggests further that the prevailing systems of managing public enterprises are quite insensitive to the issues, dilemmas, anxieties and difficulties experienced by operating managers. This problem area is deemed to merit further investigation.

According to the schema of force field analysis, the strategies of change designed to effect improvement in public enterprise performance are broadly: (a) to remove or reduce the impeding forces; (b) to add to or strengthen the impelling forces; (c) to combine both (a) and (b); (d) to focus on the strategic force - whether impelling or improving. The complexity of the forces operating on public enterprise performance seems to suggest that an integrated or a multiple prongs strategy - manipulating simultaneously a multiplicity of impeding and impelling forces - is called for in most situations. The following paragraphs will probe further these forces - winding up with a preliminary examination of strategies for performance-improvement in public enterprises.

Assessing performance-improvement potential

No enterprise observed seems to lack a performance-improvement potential, and a significant one at that. This is largely validated by the ILO experience in the productivity field. The attainable level of performance, by and large, outdistances the actual level. Some sense of the attainable can be obtained from the performance gap between the high and the low-performers in a particular situation. In terms of any appropriate performance criterion, be it production expansion, fuller capacity utilization, cost reduction, savings on import requirements, larger export proceeds and the like, the attainable is way above the actual, leaving a significant potential for performance-improvement.

For example, a typical statement indicative of the attitude prevailing in central planning authorities is that "the problems posed by implementation are far less glamorous than those of devising and manipulating sophisticated programming models". See H.C. Rieger, op. cit., p. 33.

Ample,
16. Ample, though spotty, evidence of the magnitude of this potential, can be gleaned from several pointers and indicators. Many technical assistance reports touching on the performance of individual public enterprises bring out that significant potential. One such report on a Plywoods Corporation in Ceylon has estimated the possibility of doubling production out of existing capacities through the introduction of minor improvements in the processes of production and transportation. Another on a steel plant in the middle east estimated the possibility of 40 per cent cost reduction per ton through no major changes or extra investment. Innumerable ILO field reports would point to similar possibilities. Based on technological possibilities and forecasting such projections might tend, however, to overestimate the potential. For the managerial capability for effecting such technically feasible improvements might remain unaccounted for. And technical experts might tend to exaggerate what is technically possible.

17. A more significant clue, therefore, to this potential is to be found in the perceptions of operating managers. The responses of operating managers in several situations have frequently testified to the availability of a significant potential for performance-improvement. The high performers might tend to overestimate that potential and underestimate the difficulties involved in tapping it. In cases of low performance or deterioration, the perceptions of the operating managers involved were expressive of impeding forces overwhelmingly overbalancing impelling forces, if any. The potential for performance-improvement is seen very small and/or the difficulties involved in tapping it are often overestimated. A sense of impotence and loss of control could only inhibit any expendable effort at performance-improvement. Not only high performers seem to be moving in terms of present performance compared with the recent past, but also they are more open to and optimistic about further performance improvement. For, in essence, the process is one of moving toward a moving attainable level of performance.

18. The high performers in any population of public enterprises serve as a pointer to some attainable potential. The gap between the leaders and the laggards in the same national environment provide a global indicator of that potential and an example of what can be done. Their visibility is an obvious precondition of any demonstration effect. But the high performers /are not
are not always visible even to their supervising authorities, particularly in situations of proliferation, and especially for the less spectacular projects. This might be gleaned from the lack of a consensus or a near-consensus in many situations among supervising agencies personnel on rating the highest three performers from among their subordinate enterprises. And this lack of visibility can be often demoralizing to the operating men involved.

19. Identifying the high-performers which almost invariably are found in every situation is an initial, yet crucial step in programming for performance improvement. Thus, in surveying the performance of the State Corporations in Ceylon, the State Engineering Corporation, the Ceylon Tyre Corporation and the River Valley Development Board (R.V.D.B.), among few more, stood in relation to the rest as forerunners of improved practices. Identifying the high-performers and enhancing their visibility calls for a certain "symbolic capability"\(^2\) on the part of superior authorities. It calls for the judicious creation of powerful and meaningful symbols and the selective transmission of symbolic messages that could have adequate resonance, yet entail little cost. These symbolic rewards, effectively administered, could have an impact out of proportion to the cost and effort involved. The Indian administrative practice seems to have adequately recognized this capability. Hindustan Insecticides Ltd., a high performer covered in the cross-section of comparative cases, appears to have been awarded twice the "Presidential Certificate of Honour" for good over-all performance, and to have received a prized from Delhi Productivity Council, in the Indian Productivity year, for its production and cost reduction results. For all their predilection for producing symbols in all spheres, many governments observed do not seem to adequately practice this symbolic capability in reference to performance-improvement in the public enterprise sector. Such practices seem to have been intensively used in so-called centrally-planned economics, particularly those emphasizing non-material incentives. By and large, however, the high performers in the cases covered do not seem to be sufficiently identified; nor symbolically rewarded and reinforced.

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20. Several other indicators can roughly point to the potential for performance-improvement in the public enterprise sector, looked at as a whole. The unutilized capacities, large as already seen; the capital-output ratios as compared with what obtains in other situations; enter-firm performance comparisons involving similar public enterprises abroad; measuring the lag behind modern practice and so on, could provide some useful global indicators. But such global assessments could only affirm an a priori assumption which is almost always safe and useful to make, namely, that the potential is there and is significant at that. Exaggerated anticipations, of course, might only lead to psychological failure and might inhibit further any achievement motivation. But reasonable anticipations and realistic performance-improvement goals, which are to be subsequently checked against more concrete results, are, more often than not, realizable. And it is more useful to err on the positive side than to underrate or gloss over such potential. In fact, the quest for performance-improvement is bound to be more reinforced by reasonably overestimating this potential and reasonably underestimating the foreseeable and unforeseeable difficulties involved in tapping it than by making the reverse error as could be the case.

21. The tendency to err on the negative side could be found in situations whence public enterprise operate in a highly hostile climate of opinion. This is partly observable in Ceylon; post-1966 Ghana and several Latin American countries. A widespread notion that public enterprises are "inherently" ineffective - a belief which is understandably held and propagated by advocates of private enterprise and several vested interests - might pervade the climate of informed opinion and penetrate the administration. This might be constantly fed and reinforced by a persistently negative image of the performance of public enterprises continuously projected by the press. While these press reports mirror the reality, they are not infrequently slanted, distorted and partial. Deficient performance is often being magnified while achievements - and real achievements are never totally absent - are not adequately, if at all, publicized. Cases of reasonably successful performance do not make news the way cases of dismal failure do. This should not suggest protecting low performance from public criticism, for this is not a growth-inducing help, as described above. Even in centrally-planned...
centrally-planned economies, committed ideologically to public enterprise, the leaderships have been readily permissive of public criticism being directed at the operating levels. In any event, suppressing such public criticism is never healthy if ever feasible. It could conduce to lethargic and lax performance. But the frequency with which operating managers expressed their feeling of being enveloped by a hostile environment is not without serious implications for public enterprise performance. It points to a real problem area; to a public relations problem of the first order of magnitude in some situations; a problem that has to be squarely faced by operating managers and their superior authorities alike.

22. Such a negative image, particularly in the absence of any conclusive information to the contrary as is often the case, could well influence the perceptions of supervising authorities in assessing the potential for performance-improvement. These perceptions might also be coloured by some lingering ambivalence flowing from the unresolved debate over public versus private enterprise, which has been observed in several situations. A strong commitment on the part of supervising authorities to a high level of economic performance in public enterprises might be interfered with by conflicting concerns. These continue to interfere with the sense of urgency for improving economic performance. Yet the public versus private enterprise debate is rationally beside the point when it comes to improving the performance of "on-going" or existing public enterprises. Indeed, in some situations, such improved performance could have facilitated their transfer to the private sector. Also one can validly argue that any worthy non-economic goals are hardly viable or attainable in a low-performance economy. But the unresolved issues, the non-economic concerns and the lingering ambivalences, could still, in the face of the most rational arguments, whittle down the commitment to and the urgency of effective action for performance improvement.

23. Still the commitment might be forthcoming; yet the means might be inadequate. But this is the smaller part of the performance problem. For the global indicators of the potential for performance-improvement, assuring as they might be, do not yield an action programme - what is to be done, where and how. Any such potential has to be translatable into a myriad of
action steps at the operating levels. Hence, supervising authorities have to get down to the operating levels and to devise the mechanisms of inducing and sustaining this programming action. Any effective programming for performance improvement has to start from an adequate assessment of the capabilities profiles of individual enterprises and has to be coached in terms of a feasibility planning style. This is usually alien to and a far cry from the style of planning that crept into practice at the central levels. Not only a new orientation to a different planning practice would be needed but also a new pattern of relationships has to be developed between the enterprise and its authority. For this kind of operational planning, in any effective sense, could only be highly participative, highly decentralized to mobilize the initiative, motivation and commitment of the operating man "who know best how his shoe fits".

Assessing Impeding Forces

An exhaustive listing of all the impeding forces perceived by respondents and observed in the field would be less than useful. For everything under the sun, including the weather, could go into these forces. Yet each

The capability profile of an enterprise is a multi-purpose modern management technique which can be used to (a) evaluate any internal strengths and weaknesses, within the firm, (b) derive synergy characteristics which the enterprise can use in its search for opportunities, and (c) measure the synergy potential between the firm and possible acquisition. The synergy concept pertains to exploiting the possible interrelations among the components of a product line and the jointness of costs and assets to make the performance outcome greater than the simple summation of individual parts; in effect, to make 2+2=5. For a description of this technique, based on the practice of Lockheed Electronics Company see M. Igor Ansoff, Corporate Strategy, New York: McGraw-Hill 1965.

Feasibility planning is, in short, planning in terms of the capability profile of the enterprise; as described above; in terms of its comparative competence and what it can do best rather than in terms of central planners' preferences in abstraction from operating realities. It is planning from the operating levels up rather than from the central levels down. For an approach to planning in the social field, using a similar concept, see Robert Morris and Robert H. Binstock, Feasible Planning for Social Change, New York: Columbia University Press, 1966, especially chapters I, II and VIII.

In fact, the performance of the Salt Corporation in Ceylon shows a direct and significant relation to weather conditions. For a renewed emphasis on weather conditions as, at least, a partial explanation of underdevelopment, see Gunnar Myrdal, "Asian Drama", New York 1968.
enterprise, as noted represents a unique constellation thereof. Some regrouping and refining of the raw data is unavoidable, even at the risk of losing some of the flavour of the content originally captured. The raw data seems to lend itself to a six-fold classification, as listed in Table 1 below together with the percentages of frequencies or responses for each classification. No such classification, of course, is completely free from an element of arbitrariness and judgement. Many responses cut across more than one classification or can be classified in several ways. And their frequencies are necessarily a rough indicator of the relative importance of the varieties of impeding forces, operating on public enterprise performance.

Table 1
CLASSIFICATION OF IMPEDING FORCES AND THEIR RELATIVE FREQUENCIES

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Forces Pertaining to Operating managers</td>
<td>23</td>
</tr>
<tr>
<td>II. Forces Pertaining to Supervising Authorities</td>
<td>18</td>
</tr>
<tr>
<td>III. Forces Pertaining to relationships between enterprise and supervising authorities</td>
<td>17</td>
</tr>
<tr>
<td>IV. Forces Pertaining to initial structural handicaps</td>
<td>8</td>
</tr>
<tr>
<td>V. Forces Pertaining to critical situational constraints</td>
<td>18</td>
</tr>
<tr>
<td>VI. Forces Pertaining to systems characteristics</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>100</td>
</tr>
</tbody>
</table>

25. Forces pertaining to operating managers point particularly to:
(1) deficient management motivation; (2) inadequacies in career background and professional orientation; (3) to the frequent role conflicts experienced by operating managers; (4) to their growing feeling that they operate in a hostile rather...
hostile rather than supportive environment; (5) to their high vulnerability to loss of autonomy; (6) to their ineffective management practices; and (7) to their propensity to defensive behaviour vis-à-vis the pressures of the situation and in their dealing with superior authority.

26. Forces pertaining to supervising authorities refer particularly to:
(1) faulty target-setting; (2) to inadequate trust in the operating manager;
(3) to their behaviour in ways that erode the autonomy of the enterprise;
(4) to the ambiguous and conflicting yardsticks and criteria they maintain;
(5) to their tendency to devalue the role and contribution of the enterprise manager; (6) to their low commitment to economic performance and their overconcern with performance-impeding non-economic goals; (7) to their incapability to direct, and to appreciate the problems of the operating manager;
(8) to their frequent preoccupation with small mistakes, petty errors and rule infractions, and (9) their ready tendency to scapegoating by shifting the blame to the operating manager.

27. Forces pertaining to relationships between enterprise and its superior authority bring out the overlap, or rather interaction, between forces grouped in I and II. For the behaviour of the operating manager vis-à-vis authority is largely conditioned by the behaviour of authority toward him. They refer to the frequency of tensions, misunderstandings, differences, conflicts and the low level of mutual trust that often obtains between operating managers and their superior agencies. They bring out the frequent failures of communication and interaction processes throughout the managerial hierarchy of the public enterprise system.

28. These three sets of forces, I, II and III as listed above, overlapping and necessarily interconnected as they are, represent the human side of public enterprise. At the risk of some oversimplification, they seem to account for two-thirds of the problem of public enterprise performance, or that much of the forces that emerge from the data as impeding performance; and apparently a bigger share of the forces that could be impelling performance. Yet more focus is usually placed on the "objective", material or the non-behavioural forces. For these perhaps are easier to articulate and describe.

/Initial Structural
Initial Structural Handicaps

29. The likelihood is high that a new public enterprise comes into existence, with an initial structural handicap or a starting disadvantage. Indeed, most public enterprises observed emerge from their formative stage, as investment projects, into their operational stage saddled with some structural handicap or disadvantage which continues to act as a drag on their cost performance for a protracted period of time. This particularly shows in the cases of low performance, who are almost invariably beset by them. Hindustan Shipyard Ltd. (HSL), for example, has a cost structure which stands at no less higher than 40 per cent of competitive international prices. This unfavorable cost structure could be attributed to dependence on imported materials which constitute about 20 per cent of material cost; to inadequate technical skills; to unutilized capacity and the low productivity potential of the shipyard. But this is lesser of a handicap than in the other cases of low-performers observed.

30. In a cross-country sample of 50 new public enterprises the frequencies with which these initial structural disadvantages occur were found to be revealing of the following pattern, as presents in Table 2 below:

Table 2
FREQUENCIES AND TYPES OF STRUCTURAL HANDICAPS

<table>
<thead>
<tr>
<th>Structural Handicap</th>
<th>Frequency or percent of cases</th>
</tr>
</thead>
<tbody>
<tr>
<td>Locational disadvantage</td>
<td>15</td>
</tr>
<tr>
<td>Irregular Supply of material inputs</td>
<td>30</td>
</tr>
<tr>
<td>Higher Capital Costs than anticipated</td>
<td>25</td>
</tr>
<tr>
<td>Additional Overheads incurred in a protracted period of project implementation</td>
<td>20</td>
</tr>
<tr>
<td>Deficient Form of Organization</td>
<td>5</td>
</tr>
<tr>
<td>Inadequate Constitution of Board</td>
<td>20</td>
</tr>
<tr>
<td>Technological Obsolescence</td>
<td>5</td>
</tr>
<tr>
<td>Manpower redundancy</td>
<td>25</td>
</tr>
<tr>
<td>Inadequate Market</td>
<td>15</td>
</tr>
<tr>
<td>Faulty Product Line</td>
<td>15</td>
</tr>
<tr>
<td>Other reasons</td>
<td>10</td>
</tr>
</tbody>
</table>

/Most enterprises
Most enterprises were found to suffer from a multi-dimensional handicap, attributed to more than one reason.

31. Locational disadvantages associate with a certain tendency to politicise the siting decision, or to overemphasize the role of public enterprise in regional development, particularly in case of projects which are not necessarily foot-loose. High dependence on foreign exchange allotments for effective operation renders the enterprise vulnerable to highly uncertain situational pressures and constraints. An enterprise with high import requirements in a situation of foreign exchange shortage is bound to be something of a "misfit". The demands of its production system run counter to be critical constraints of the situation so much that the fit between these two interlocking arrangements is rendered highly precarious. Enterprise management operates under constant pressure to accommodate the imperatives of its production system to the critical constraint in the situation.

32. High capital costs than anticipated and additional overhead incurred in protracted implementation are common-place enough to point, among other things, to inadequate motivation for economizing capital requirements. Inappropriate organizational forms, however, do not seem to loom as large as is usually supposed. For one thing, considerable diversity of performance obtains in enterprises with the same legal form of organization. Also wide differences in performance results could be found in enterprises with formal similarities in board constitution and tenure. It is the "quality" of the board rather than its "structure" that seems to really count. This casts doubt on the validity of "impersonal" rules about board constitution that have crept into practice in several situations. In any event, the structural characteristics of public enterprise organization could, whenever inappropriate in terms of the fit with the demands of the production system, operate as an impediment to performance. Less likely is that they could impel better performance, even where the fit between the technical and organizational systems is perfect.

33. Manpower redundancy is not only a frequent occurrence, even among the starters, but also has a way of persisting. In many situations, it has proved highly difficult to flush out even in cases where rationalization has been attempted.
been attempted. In general, such a handicap tends to compound any other initial handicaps, a public enterprise started off with. At times, it could build into the enterprise a strong motivation for expansion with a view to productively utilize any redundant manpower the enterprise winded up with. It could induce a greater selectivity and scrutiny in tackling new recruitment. It could induce better within the enterprise retraining efforts. And it could enhance the willingness of operating management, to stand up to mounting pressures for "making" work. Operating managers, for example, who have seriously attempted rationalization schemes and enhanced the awareness of their superior authorities of the magnitude of redundancy they already carry, were found in a better position to resist pressures for absorbing more. But these are only indicative of the responses of the high performers to the pressures of the situation. By and large, however, an overcrowded organization tends to develop an organizational climate which is highly inimical to effective performance.

34. Technological obsolescence is a greater source of handicaps to public enterprises than it shows from present information. At least, it is potentially so. It is less visible or delayed a risk on account of the low exposure to international competition. But its potential magnitude, for many a presently protected enterprise, can be gleaned from looking at the problems of performance in national airlines operating in the international field. A tie-in or a partnership with advanced international companies has proved crucial for the effective operation of Royal Air Maroc (R.A.M.), the Ethiopian Airlines and several other cases. The more public enterprises step out into the international arena, with a view to promote experts for their national economies or to mop up an overflowing capacity, the more they will get exposed to the impediment of technological obsolescence. The "Airlines Pattern" could be a forerunner of the way public enterprises in many branches would have to adjust to the reality of mounting international competition. The same mechanisms of operating in a sheltered market, where foreign exchange shortage presents both an opportunity and a handicap, work to suspend the need for effective marketing and to make tolerable some initial marketing handicap.

/Critical Constraints
Critical Constraints

35. Compounding or, at times cushioning these initial handicaps, moreover, are certain critical constraints that inhere in the enterprise situation. The situation is, of course, ripe with many critical constraints. And any public enterprise observed necessarily forms part of a complex larger system that places manifold constraints on the choices open to operating management. These constraints may work for better or for worse enterprise performance. That depends on the dominant behaviour patterns that emerge in response to a particular set of constraints. The foreign exchange constraint, which has received the highest frequency in the responses, could impede the regularity of material flow presupposed by a continuous production system; could increase the risk of excess capacities and could render the profit performance of the enterprise highly vulnerable to environmental constraints. But it could simultaneously reduce the risk of foreign competition, enhance the implicit monopoly power of the enterprise and create opportunities for material savings and import substitutions. Such a constraint, equally critical for two enterprises, could prove an insurmountable impediment to one; a manageable difficulty or even an inducement mechanism of a sort to the other. The problem does not seem to reside in the constraints per se, manifold and critical as they are, inasmuch as in the managers' perceptions of them and in the resultant responses.

36. The managers' responses to some of these most critical constraints, including the foreign exchange constraint, were elicited in a series of workshops conducted in three of the countries covered, involving about 150 public enterprise managers. The responses to the foreign exchange constraint were found to range all the way from "complaining about it", to various practices of "cushioning" against this ever-present risk by "hiding" reserves of critical items; over-estimating requirements; to various practices of improvisation that, at times, border on a "creative" response to the problem. This exercise has brought to the fore the newer skills that managers have to develop, call them "improvisation" skills if you will, in order to compensate or "over-compensate" for the missing components and for meeting the risk of ever-present critical constraints.
Such skills point to his ability to gain access to certain decision centers; to engage effectively in a "bureaucratic", as opposed to "market", competition for the allocation of scarce resources; to pursue informal practices of collaboration with other enterprise managers in coping with a common problem; to evolve positive arrangements for economizing foreign exchange requirements; and capabilities of "aggressive" acquisition of these resources from new sources e.g. effective arrangements with foreign supplies. Undoubtedly, this constraint, like several others, seems to be taxing to his abilities. But there are always the "few" who seem to be coping with it more effectively.

37. Next to the foreign exchange constraint, in terms of the frequency of responses, is the multiplicity of "restrictive" administrative rules, emanating from the practices of the established bureaucracy, which are often pressed on the operating managers of public enterprises. This is a greater and more pronounced tendency in public enterprise systems which make for lesser differentiation from than integration with the traditions of established administration. In some systems, the public enterprise is more pegged to private company practices than others. In others, it is, more or less, a satellite of the departmental form, and a "prisoner" of its mode of operation. But the risk is always there for public enterprise managers to be called upon to "import" the administrative rules and practices of their larger administrative system. Here again, however, field evidence seems to suggest that the problem of performance vis-à-vis these rules, resides less in the rules than in the enterprise managers' responses to them. The information generated through the workshop experiences, referred to above, clearly indicates that the attitudes of operating managers toward these rules range all the way from those who look upon it as "divinely ordained";\(^\text{13}\) to those who look upon them as virtually "negotiable"; to those, who in varying degrees and for varied motives, are willing to take the risk of rule-infraction. By and large, those who have positive and visible performance results to show, have a higher propensity to take the risk of rule-infraction than otherwise. Those

\(^\text{13}\) To use a term actually used by the Administrative Reform Commission of Ceylon.
who look upon the rules as divinely ordained stop short at complaining about them, as they do about the foreign exchange shortage and other constraints.

38. This, again, brings to the fore the newer skills that are prompted by the environmental constraints. The effective operating manager can be usefully construed as engaging in perpetual negotiations with authorities over changing rules, with a view to increase the "fit" between these rules and the demands of his production system. Those operating managers who exhibit a high achievement motivation, but fail to develop adequately this rule-negotiating skills, have only to fall back on their attitude to the risk of rule-infraction. From among those, there could be a significant "fall-out". And it has proved highly significant in some situations to investigate such a fall-out - those operating managers who were driven out of the public enterprise system either of their own volition or out of their frustrations or because they were forced out. From the meager evidence that is available they largely appear to be non-conformers who either failed to develop the negotiating skill described above or to show rather "dramatic" or spectacular results. But the dead weight of these rules and bureaucratic constraints could be such that they protect the conformist or winnow out of a given stock of operating managers for successful survivors.

39. Next to bureaucratic constraints, in the rank order of the responses, are the restrictions imposed upon the action possibilities of operating managers on account of certain missing components of skilled, professional and sub-professional manpower - management accountants, production engineers, management staff specialists of all types and effective supervisory personnel. In a way, the frequency of these missing manpower components reflect the physical fact that it takes some fifteen years to develop most of these professional-technical skills, while it takes five years or so to construct the production facilities. Inherent in the process, therefore, is a manpower development lag. This is frequently compounded by the constraints on the employment of expatriate manpower in conjunction with the foreign exchange constraint. For, in principle at least, such a constraint could be eliminated or reduced by shifting the supply to encompass the reservoir of importable manpower from
manpower from advanced countries. But these constraints have their way of inter-locking, inter-connecting and building upon each other so that they often call for the solution of a simultaneous equation. And this seems to be an obvious example.

40. In any event, these missing manpower components are readily detectable from an examination of the manpower structure of public enterprises. What readily emerges is a serious gap at the middle and upper middle levels of the management structure, and a total void or a semblance of presence of staff management specialists. The public enterprise manager emerges from the empirical information more as a lone operator, a one-man management team and a field commander with no staff than his counterpart in the modern corporation is ordinarily depicted. He might frequently labour under a top-heavy, over-sized, "control"-type board, while missing the supportive role of an adequate "executive" and "staff" management team. Typically, he has a tough manpower development job on his hand, and, in a way, he has to lift up his organization by some "operation bootstrap". To turn out to the educational system and its appendages to find the support, he is usually frustrated by the lack of "match with the requirements". To turn outward to the international labour market is virtually rules out. To turn outward to the domestic market, he typically finds himself in intense competition with a plethora of enterprises and bureaucratic agencies. The competition is particularly intense where it draws in his counterparts in a dynamic private sector, in command of greater degrees of freedom that he is not in command of; or relatively free from constraints he is not free from. Falling back on a prescribed salary scale and a multiplicity of personnel rules circumscribing his freedoms, he often feels disarmed and lacking any competitive edge.

41. All the pressures of his situation and the interlocking constraints behooves him to "look inward" rather than outward; to do it himself and to "do it otherwise". Here, again, in response to the situation, the high performers and the performers get differentiated. The high-performer falls back on his negotiating skill with authority to acquire a critically needed skill from abroad; to acquire a greater degree of freedom in employing expatriates; and to relax restrictions on the terms he could offer to attract

/and retain
and retain the best. He falls back on his improvisation skills by resorting to aggressive recruitment; to even manpower "piracy"; by inventing new inducements to attract and retain scarce manpower. By activating within-the-enterprise manpower development and by "discovering" the right combination of measures, he could surmount the constraint. This is evident from a number of cases in the UAR of public enterprises labouring under the same set of constraints; yet the high-performers among them managed to acquire, develop and retain a reservoir of scarce skills, while the low performers stand not really short of good alibis.

42. Ideological or political constraints seem to gain a paramount weight under some systems; at least more than others. They could have precedence over the imperatives and dictates of economic, management and, at times, technical rationality. They could creep into the public enterprise management process so that it gets highly politicized, consistently according precedence to political demands and imperatives whenever they are in conflict, frequently as they are found to be, with the imperatives and demands of economic performance. A degree of politicization of the management process of public enterprise, in this sense, seems inevitable in most systems, unless supervising authorities, as seldom happens, opt for the posture of the "ordinary" investor as in some mixed enterprises. The differences are more of degree than of kind. A strong egalitarian policy orientation, as in Tanzania; or a welfare orientation as in Ceylon; or control-power orientation as in the U.A.R.; or even a civil service orientation of a Post-office socialism variety as in India, could render vulnerable the management process in public enterprises to extra-performance political and ideological constraints.

43. The picture of operating manager that emerges again from the empirical information is one of coping with a perpetual struggle between the demands of economic performance and a host of ideological and political constraints. An egalitarian orientation could impose the constraint of reducing the gap between high-skilled salaries and low-skilled wages which is generally wider in developing countries. To operate against the law of supply and

14/ As noted by J.K. Galbraith and by Prof. Edward Mason as well as others and publicized by the Press in terms of a stereotype of a Fabian Bureaucrat, see for example, Edward Mason, op. cit. p. 5.
and demand, could result in loss of skills or manpower drain in a competitive situation. Worse still is that it could lead to no serious turnover but to more serious demoralization, suppressed frustrations and subtle forms of apathy or sabotage. In the same vein, a formal or informal constraint by the way of appeasing strike-prone unions could undermine discipline, melt away management authority and get the labour situation out of operating management control. Directed to enforce a promulgate workers' participation system out of some political motivation, or for gaining control, could, where the preconditions of effective participation are absent, only result in diluting management authority and enhance intraorganizational political bargaining. And so on.15/

44. The options presented to the operating manager in this situation could be either: to "fight" which could be suicidal for many; to "flight" where there could be no alternative for the many; or to "compromise". That is why the image of the operating manager that seems to be emerging from field investigation is one of a compromiser between the conflicting dictates of the political process and the imperatives of economic performance. The public enterprise, in particular, stands as a constant testing ground of this compromising skill on the part of the operating manager. The high performer, and for that matter the survivor in many a public enterprise system, is the one who reasonably "manages" to meet and/or appease such political or ideological demands, without having to trade away too much of the economic performance results he needs eventually to show. But here, again, the tensions between the two conflicting desiderata could be so severe and so fundamental that only few or very few come on on top of their situation. In many subtle ways, the system seems to function in

15/ In some centrally-planned systems extolling the virtue of manual labour, setting the manager to sweep the factory floor; and the inspiring value of doctrine leading to more time out for political indoctrination, could look to some observers are obviously presenting this kind of conflict.
such a way that it makes only for the survival of the "dual executive" - the one who combines the skills of the "rational manager" with the skills of the political operator.

45. Last but, at times, not least, would some come the so-called cultural constraints. Situations, of course, abound whence public enterprise performance is severely bound by certain cultural constraints. Most notable, among these, as far as the empirical data goes, are the ethnic group tensions and conflicts that afflict public enterprise operations in many situations. The Nigerian Railways, is a case in point. But this severe dilemma for the operating manager, particularly in public enterprise to the extent of political sensitivity expected of him, has cropped up, time and again, in several contexts. Here, again, not only the whole constellation of compromising-negotiating-improvising skills commanded by the operating manager is put to a severe test. But his national identity, emotional maturity, his capability to cross ethnic barriers, to understand inter-group dynamics, to build integrated teams and to practise effective human relations, are being constantly exposed.


18/ It has repeatedly cropped up in the Expert Meeting sponsored by the ILO on Social and Cultural Factors on Management Development in 1965. It has also cropped up in the Expert Meeting sponsored by the ILO on Management Development in Africa. For both meetings the author has served as consultant. And several field experiences in Africa and the Far East have severely brought it out.

19/ It is to be noted, however, that such cultural constraints tend to be overrated by outside observers who are apt, consciously or unconsciously to intrude their values and their self-reference criterion into a different cultural situation. But the Japanese industrialization experience stands out to show the great possibilities of reconcilability between certain non-Western or, at times, non-rational cultural traits and the imperatives of an industrial production system. See, for example, the significant case study by James C. Abegglen on "The Japanese Factory", Aspects of its Social Organization, Free Press, Illinois, 1958. See also an unpublished manuscript of his on "Japanese Business Leaders", dated 1962.
The Strategic Significance of Operating Managers Responses

46. It is not then, that these public enterprises observed are, more often than not, ridden with fundamental or structural problems, handicapped by organizational weaknesses and subjected to high pressures and critical constraints. For these are more or less common experiences for the high and low performers alike. What seems to spell out the difference, in terms of performance results, is the response to these pressures and the enterprise behaviour in coping with these problems and handicaps. Available evidence, at some risk of simplification, points to a pattern of behaviour that associates with high performance and a different pattern that associates with low performance as schematically presented in Exhibit II below.

Performance results as they unfold influence further this pattern of behaviour. And they also shape the organizational relations between the enterprise and supervising authorities in ways that influence further a particular behaviour. And so on.

Exhibit II

SCHEMATIC PRESENTATION OF VARYING RESPONSES TO PROBLEMS, PRESSURES, CONSTRAINTS

[Diagram showing the relationship between problems, pressures, constraints, management responses, performance outcomes, and organizational relations.]
47. For example, a comparison between two high-performers and three comparable low-performers in the textile industry of one country covered reveals roughly the following array of events.20/ Through their relative freedom from initial handicaps and their way of responding to the pressures of a new situation, high-performers have managed to accelerate production to overtake employment demands and to increase productivity to keep pace with labour's demands. In contract, low-performers have got at some point, caught in a fatal profit squeeze. The attendant dependency on external support and subsidization has set in motion a train of events threatening their autonomy and increasing their vulnerability to these external pressures. The contrasting sequences can be, at the risk of some oversimplification, schematically presented as in Exhibit III A and B below.

48. The most significant conclusion that emerges from the analysis of differential performance at the level of individual enterprises, is the contrasting behavioural differences that obtain between high-performers and low-performers. High-performers have been found to display different motivations, attitudes, practices, and patterns of responses as compared with those displayed by low-performers. These varying sets of "casual variables" appear to be the correlates of effective and ineffective performance. Available evidence points particularly to the quality of management leadership, at the operating level as a correlate of enterprise performance. Different leadership patterns at the enterprise level including individual differences in managerial competence, in the need for achievement stand out as particularly significant.21/

20/ Based on an unpublished comparative case study of Beida Dyers, Kafa el Dawar, Filature Nationale, Melwan Textiles and Kena Spinning and Weaving - all belonging to the public enterprise sector in the U.A.R.

21/ The Final Report of Geneva Seminar captured as consensus of country participants as it stated: "again, it has become even more clear than it was at Rangoon and New Delhi that the precise legal forms of public enterprises are of small importance in comparison to the personal qualities and professional qualifications of managerial personnel. In fact, it is now obvious that managerial recruitment and development are the key problems of public enterprise in all countries". See report of the United Nations Seminar on Organization and Administration of Public Enterprises, Sales No. 67.II.H.2, p. 2.
Exhibit III A

A SIMPLE REPRESENTATION OF THE SEQUENCES OBTAINING IN CASES OF HIGH-PERFORMANCE

Exhibit III B

A SIMPLE REPRESENTATION OF THE SEquences OBSERVES IN CASES OF LOW-PERFORMANCE

/49. Experiential
49. Experiential evidence suggests that, no matter what might be the facts of a specific situation, the key variable that associates with these comparative differences in performance, seems to be the personality of the public enterprise manager concerned and his response to the pressures of the situation under which he operates. Indeed, the new roles demanded of public enterprise managers in the national development effort, call for new personality types possessing the entrepreneurial traits of the transitional or innovational personality. In a real sense, they call for a new breed of so-called "public entrepreneurs". Even in highly traditional societies where the authoritarian personality is said to prevail, there is present within the universe of public enterprise managers, innovational personality types. In many developing countries, early family training, formal schooling, higher education training, early and advanced work experiences seem to work for the formation and reinforcement of authoritarian bureaucratic personalities, placing a great valuation upon conformity. The approval motive tends to be stronger than achievement motivation. But this kind of analysis, realistic as it might seem in terms of experiential evidence, should not lead to a no-action prescription. For public enterprise managers are mostly recruited from elite groups, with "cosmopolitan" value systems, where the frequency of new personality types is higher and their ability to assimilate new attitudes, values and motivations cannot be underestimated.

50. It has proved almost impossible to account for deficient performance in the "lows" in isolation from the operating managers, responses to environmental pressures under which they operate. It has proved highly revealing to get a feel for the manifold pressures under which these managers are placed in order to perform according to the targets and dictates of the national plan or policies. To gain a better understanding of public enterprise performance, supervising authorities need to understand the role conflicts to which they are subjected, the deliberate pressures imposed upon them through statutory measures, ministerial discretions, the multiple controls - direct and indirect - they have to cope with; the ever-present shortages, bottlenecks and uncertainties they have to deal with and the help, if any, they are getting from external agencies. It has proved also to be revealing to consider the morals of senior management personnel /in public
in public enterprises, to search for whatever adverse factors are operating on their motivation and for how adequately the system provides for nurturing their morale and for conducing to their growth as effective managers. Indeed, the forces operating for "public enterprise growth" seem to highly overlap with the forces conducive to the growth of public enterprise managers.

Contrasting Responses
51. Placed under a high-pressure system, there are always those operating managers who evolve and perfect their own bureaucratic defense mechanisms in response to the situation. But there are also those who do respond creatively enough to make significant developmental contributions. Consequently, an adequate analysis of the performance record, has called for a systematic detection of the varying pattern of responses that operating managers exhibit and for assessing their developmental implications. For certain patterns of behaviour can be ascertained to conduce to, while others could defeat adequate performance results.

52. The pressures, as observed, are largely working simultaneously in several conflicting directions: (i) to maximize capacity utilization, employment absorption, and gross production; while attaining a break-even point or a profit target no less than last year; and while coping with a perennial exchange shortage; (ii) a cost-push tendency is combining with a sticky price structure or inflexibly administered prices or downward pressure upon prices to result in a profit squeeze; (iii) to produce performance results while demonstrating his sensitivity to political and ideological demand; (iv) to produce such results while caught in a cross-fire between the demands for high "differentiation" from, and the conflicting demands of high "integration" with, the established administration. And so on.

53. To operating managers, these manifold pressures generate threats, challenges, anxieties, frustrations conflicts and fears of failure. Generally speaking, there are two main patterns of response to these pressures. One is to change behaviour so that it becomes congruent with these performance expectations. The second is rather a defensive reaction that can be, as observed, manifested in innumerable ways and manifestations. A really rich variety is available to the field observer. It could take the form of, more often covert than overt, aggression vis-à-vis authority.
More likely, it leads to repression of dilemmas, suppression of informal practices; denial, inhibition and quick, ready rationalizations. It could lead to a ready tendency to "externalize" problems and project them on other parties. It could induce overcompensation by excessive identification with the political line and marked ambivalence to performance. It could lead to "continuation" or vacillation or even flight—physical or psychological. Seldom does the operating man lack an alibi. But such defensiveness is a ready and easy substitute for problem-solving.

54. Almost invariably, low-performers exhibit more of such defensive behaviour than high-performers. Low-performers have proved to be more frequently inhibited by the restrictions on their formal administrative authority; while high-performers were aware of their "informal" power enough to determine the outcome in many situations of interaction with superior agencies. In their dealings with these agencies, high-performers have experientially learned the power of "knowing" about their jobs more than anybody else, the power of competence; the power of initiating well-conceived decisions and accurately anticipating performance outcomes. Low-performers have shown a tendency to take the stance of recipients of directives; they more frequently refer problems to higher authorities for instructions without initiating a defensible solution. By all accounts, they display a greater sense of impotence and they readily resort to psychological abdication. Their response to deteriorating performance, for reasons often perceived to be beyond their control, is frequently a sense of incompetence, inadequacy, loss of control, helplessness and abdication. It could also generate a tendency to overcompensate by eliciting foreign help and government protection.

55. By contrast, the high-performers appear to nearly meet both the requirements for highly differentiated organizational units and the necessity for these units to work well with the corresponding government departments. They readily cope with their ever-present role conflicts, and appear to gain a greater capability for reconciling the enterprise goals with the public policy goals. Positive performance results provide a greater latitude for this reconciliation. Low-performers on the other hand get to drift more frequently into organizational conflicts with
authority, with economic overtones. Relatively, the enterprise is often weak and the supervising authority is strong; and unresolved issues with authority are likely to induce fall-outs.

**Influence System Characteristics**

56. Certain features of the public enterprise management system, at a macro-level, seem to operate in such a way as to conduce to, or more probably to reinforce effective and ineffective performance. As emerging from available responses, they pertain particularly to: (1) the inconclusiveness of measuring performance; (2) the uncertainties involved in evaluating performance by a remote or unsympathetic superior authority; (3) the vertical diffusion of authority throughout the hierarchy to make a scapegoating a ready mechanism - both ways; (4) the horizontal diffusion of management authority through prescribed rules for workers participation or for certain inter-enterprise relations; (5) the perennial ambiguity of rules; (6) the strength of forces operating to erode enterprise autonomy in many situations; (7) and the inadequacy of impelling forces or "energy inputs" received from the larger system.

57. Exposure of operating management to some continuous evaluation feedback could be a powerful impelling force to effective performance. This is particularly evident in public enterprises like Port Authorities and national airlines operating internationally, serving not only domestic users but also foreign shippers and clients. Therefore their performance is continuously subject to the critical review of users who are familiar with comparative performance in neighbouring countries as well as in advanced economies. International performance standards are readily brought to bear on users' evaluation. And such evaluation feedback is effected spontaneously in the course of operating rather than being predicated on some external bureaucratic assessment. But this serves only to illustrate the inadequacy of feedback mechanisms found in most cases. And when few enterprises happen to be subjected to such exceptionally strong evaluation feedback, effective management response is not adequately reinforced.
58. In looking at the performance of a public enterprise in particular, supervising authorities have to appreciate the fact that they are dealing with open systems. More so than in the case of private enterprise or foreign enterprises. The more open systems import, willingly or unwillingly, a considerable lot of impelling as well as impeding forces from their larger systems and their environments. In effect, the enterprise truly becomes a microcosm of that larger system. But public enterprises are open systems in varying degrees and for different reasons. Some of these might pertain to the structural characteristics of the enterprise. For example, the technology of operations in the Karachi Port Trust, as in Colombo, still largely manual and entailing a work force of more than 10,000 employees, does not insulate the port from the influence of traditional cultural factors to the extent that the technology of Pakistan International Airlines does for that enterprise. A higher level of technology, higher capital intensity, a smaller and a highly skilled workforce work in certain ways to insulate the enterprise, in some degree, from its large culture. Its organizational culture tends, in certain respects at least, to be differentiated from its larger culture.

In Conclusion

59. Looking at the whole array of events and the sequence of enterprise behaviour through time, the analyst is apt to experience some difficulties in disentangling the causes of effective performance from its consequences. So is the problem in analyzing cases of ineffective performance. In either case, one gets the impression of observing a cumulative process where causes and consequences inter-lock and are often self-sustaining and mutually reinforcing. The movement of the high-performers through time seems to approximate a model of an "ascending spiral" of accelerated growth. By contrast, the low-performers seem to be locked into a descending spiral of deteriorating performance. Very few low-performers seem to be locked into a closed circle of no-growth and no-deterioration. These contrasting performance models seem to suggest that enterprises which fail, for whatever causes, to break through some initial phase of infancy and teething troubles into an ascending spiral, tend to get enveloped into a descending path
of deteriorating performance. In most cases observed, it is either an ascending or a descending spiral; an acceleration or deceleration process. It does not seem to look as a closed circle.

60. These contrasting growth paths are clearly illustrated by Hindustan Insecticides Ltd. (HIL) when juxtaposed with Hindustan Shipyard Ltd. (HSL). Signs of the deteriorating performance of HSL can be gleaned from the increasing shortfall in output results and the elongation of the average construction period for a vessel. A target of 60,000 DWT per year was envisaged originally by 1963-64; but it was progressively scaled down to 40,000 DWT by the end of the third plan. The DWT achieved usually fell short of the DWT scheduled in most years. During the second plan period the proportion fell as low as 34 per cent in 1960-61, and in the third plan period to 55 per cent in 1964-65. The average construction period for a vessel seems to have increased greatly as time passed. During 1955-61 it stood between 21 months and 30 months, whereas during 1964-66 it varied between 34 months and 44 months. Contrasting signs of perceptible improvement in performance were readily exhibited by HIL. Lower costs, improved prices, expanding market, better financial result, less need for dependence on authorities, more autonomy, greater expansion, better wages, more peaceful industrial relations and a confirmed image of success.

61. The same pattern, in varying degrees and varying details, repeats itself in many diverse situations. In comparing Mbhatam Press Company (MPC) or Transport Engineering Company (TEC) with Plywoods Processing Corporation (PPC), all belonging to the Chemical "Holding" Organization in the UAR - the same pattern obtains. In comparing Royal Air Maroc (RAM) with Office National d'Irrigation (ONI), both operating under largely the same management system in Morocco, the same pattern crops up. In comparing the Yildiz Porcelain Factory (YPF) with the Sümerbank Leather and Shoe Factory, both belonging to Sümerbank of Turkey, it is the same. Even in comparing El Hospital Universitario with EJGULA in Colombo, it is again the same pattern.

62. Even when it comes to relations with superior authorities, high-performers tend to be in a better position to command government due support and to ward off undue interventions than low-performers. Thus HSL experienced serious delay in mobilizing needed consultancy help partly /because of
because of the government's unwillingness to release the foreign exchange. Royal Air Maroc (RAM) managed to command reasonable management support without undue interference to establish prestigious lines. By contrast, "artificial" government support, when forthcoming to the lower-performers who need it most, might not conduce to their effective management behaviour. This is illustrated by the experience of HSL. The fewness and discontinuity of shiporders in the early years inevitably kept management from experiencing a keen concern for production planning and economical operations. When orders flowed in later, through artificial government support, management felt, consciously or unconsciously, assured of a "captive" market. And the pricing formula kept the management from experiencing a need for keenly searching for customers, cost economies on efficient production planning. Thus certain interventions by supervising authorities might relieve management from the need for particular growth experiences.