Unsatisfactory Performance of Sri Lanka's State-Owned Enterprises: Causality Diagnostics in Management Autonomy and Accountability

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Introduction

Establishing State-owned Enterprises (SoEs) is viewed as a strategy within the interventionist approach to development (Mises, 1998), where the State assumes an active role in steering economic activity. However, it is imperative that SoEs so established run efficiently; the absence of which condition leads to waste of resources, making SoEs a burden on public coffers and a drawback on the economy's progress rather than a strategic support. Such inefficient SoEs would provide more evidence to substantiate the neo-liberal view (Hayek, 1944) that the State should keep itself away from doing business.

Sri Lanka has many SoEs of different categories, such as Departments, Authorities, Boards, Corporations and Companies. While the different purposes of their establishment could be justifiable, they are widely criticised for their inefficiency (Pathfinder, 2015). Many attempts to address this unsatisfactory performance of SoEs could be observed in literature (Athukorala, 2008), some through internal procedural reforms, others through management structural reforms, and others yet through corporatisation. While such efforts would have brought some positive effects, the problem persists.

The purpose of the present research was to address this issue of unacceptable performance among Sri Lanka's SoEs by examining their organisational structures and the adverse dynamics which appear unresolved through previous attempts at performance improvement, in view of diagnosing the causal factors for poor performance. It also intends to explore the possibilities of developing a structural and procedural solution to resolve the problem of inefficiency among Sri Lankan SoEs.

Materials and Methods

The research was launched from the platform that there is no prima-facie structural reason for the destined failure of SoEs. Large private sector enterprises, particularly those public quoted companies and multi-nationals, are managed at high levels of efficiency by agents (professional 'Boards of Management') and not by principals

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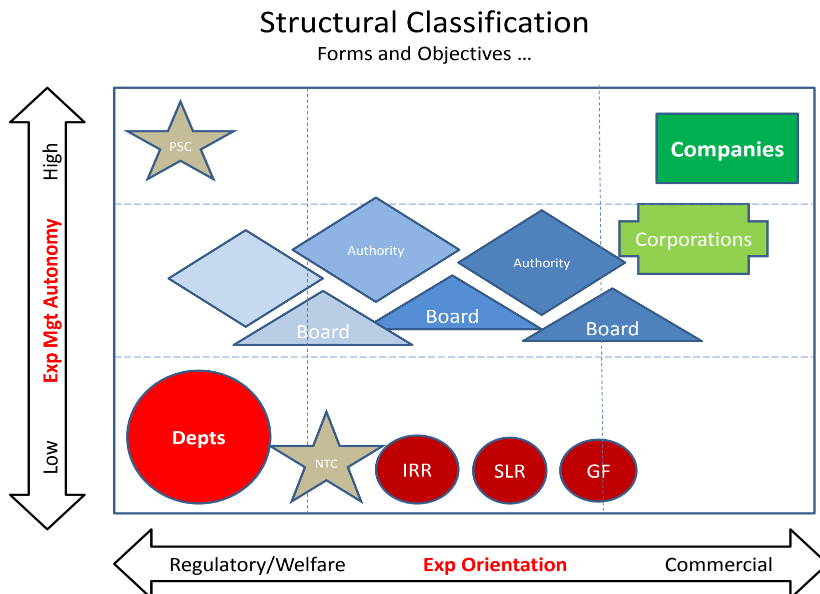
(the share-holders); and thus, it becomes a question as to why this principal-agent relationship does not appear functional with regard to SoEs (Holzer & Shwester, 2011)where agents (Governments) seem incapable of taking care of the interests of their principals (true owners, the general public) and run down the assets of the SoEs.

To answer this question, Sri Lankan SoEs belonging to different types and their organisation structures were analysed in view of understanding weaker links. Successful management models, such as that of Temasek in Singapore (APO, 1989), were used to appraise how well such links could be made stronger. Gap analysis and logical reasoning approach were used as analytical methods.

Results and Analysis

The research findings revealed that inefficiency is a common feature in all Sri Lankan SoEs, across all organisational categories. This suggests that the crux of the problem could be found much deeper than the organisation structure itself. A common feature identified in almost all cases except possibly in the case of company structure (Figure 1), was the inadequacy of management autonomy which discourages commercial initiative and risk taking, leading to poor performance.

Figure 1: Management Autonomy against Expected commercial orientation



Source: Author compilation

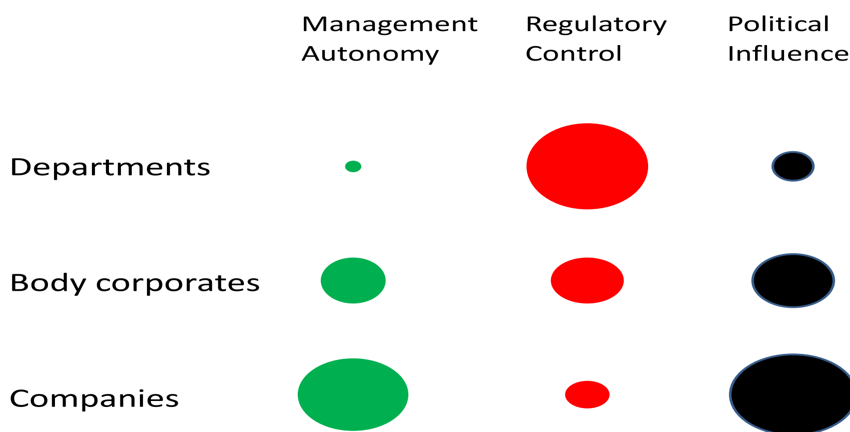
The Department structure was found to have the lowest degree of management autonomy (governed by many rules and regulations, and decisions pertaining to

management of their factors of production taken by outside agencies or commissions). Though less harmful with regard to policy, planning or regulatory-type functions (such as National Budget, Inland Revenue, Pensions, etc), such weak management autonomy could be critically damaging vis-à-vis those Departments producing goods or services competitively procured from the market (such as Government Factory, Railways, etc).

However, the study found that management autonomy alone could not solve the problem as indicated by those companies (such as Sri Lankan Airlines, Mihin Air, Lakdiva Engineering Ltd, etc) which exercise greater degree of management autonomy but incur heavy losses nevertheless. External interference to management of SoEs were thus examined to understand the degree of accountability (exercised through regulatory control) and political influence (exercised by political authority over these SoEs), the results of which analysis are depicted in the Figure 2.

Figure 2: Management Autonomy, Regulatory Control and Political Influence:

A Comparative Presentation



Source: Author depictions

These observations reveal that management autonomy and regulatory control are two factors positioned in opposing directions. Though understandable, this observation points to possible inadequacy of accountability in structures having greater managerial autonomy. It is noteworthy that regulatory control and political interference are inversely related, implying that management autonomy and political interference could go hand-in-hand.

Lack of adequate accountability when enjoying management autonomy appears to have exposed the company structure to political interference. Inadequate management autonomy, on the other hand, appears to plague Departments. Evidence thus suggests that a root cause for the poor performance of SoEs could be the mismatch between management autonomy and accountability.

Agents in the private sector (Board of Directors) are naturally pushed to ensure a minimum required profitability to keep principals content, even though they too attempt to maximise their personal welfare (Lane, 2005). No such natural dynamics exist in the State sector: thus an important automatic check for accountability is absent. Managers of SoEs would want to keep their appointing (political) authority happy for survival reasons rather than to safeguard the interests of the true owners, the general public. Unlike in private companies, true owners of SoEs do not vote for their agents (Government) at an election with the single objective of having their SoEs managed well, but also do so with a spectrum of other desires in mind, with the result that voting interests become unclear and diluted.

A comparison with the Temasek model which appears successful in managing Singaporean SoEs efficiently, makes this gap in Sri Lanka further transparent. Temasek acts as a holding company for the SoEs under it and was successful in ensuring both management autonomy and accountability of SoEs, while keeping political interference at bay. The Sri Lankan experiment with the Strategic Enterprise Management Agency (SEMA) established with the same objective was a failure, apparently for two reasons as identified by this study: (a) the SoEs brought under SEMA continued to be managed through Boards appointed by the relevant Ministers depriving SEMA of any accountability hold over them (respective Acts were not amended to change the appointing mechanism of Boards), and (b) SEMA's composition was itself more political than professional. The independent Strategic Enterprise Management Commission in the lines of Temasek model, pledged in the election Manifesto of the winning President in January 2015, has not yet been established.

Conclusion and Recommendations

This research enabled arriving at a number of insightful conclusions. It is clear that the internal management dynamics of SoEs, be they Departments, Authorities, Boards or Corporations, do not have the required natural or structural incentives to be productively steered towards realising their strategic objectives. Inadequate management autonomy with regard to Department-type organisations and the lack of managerial accountability in the case of bodies corporate and companies were diagnosed as the main gaps which caused the failure of Sri Lanka's SoEs.

This leads to the inference that appropriate management structural relations which are compatible with organisational productivity and managerial efficacy have to be

invented and institutionalised in SoEs. This is tantamount to calling for reform of SoEs, and cannot be rationally resisted even by opponents of neo-liberal ideological reasoning.
It could therefore be recommended that an innovative model with the features of an independent and professionally managed umbrella organisation for Strategic Enterprise Management, which could appoint the individual Boards, and monitor their performance while paving the way for the required autonomy and accountability, may be tested in Sri Lanka. Profits could still function as a yard-stick of measuring performance if social obligations served could be compensated by the Treasury through the holding body (which would make performance monitoring straightforward), while non-profit based performance yard-sticks also could be thought of.
This may be considered as an alternative to privatising SoEs, which has not only failed on many occasions, but could also impoverish the nation if their shares end up in foreign hands.

Key Words:* *State-Owned Enterprises, Performance Diagnostics, Management Autonomy and Accountability Mismatch, Structural Reforms

JEL Codes: L32, L33, P42, P48

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